

11 The Influence of Corporate Strategy on Real Estate Organizational Structure

Moderator:

H. Frances Reaves, Director, Business Development, Mintax

Speakers:

Daniel W. Wright, VP Corporate Real Estate, Computer Sciences Corporation

Shelly Bloch, Manager of Real Estate, Sony

Barry Beswick, SLCR, VP Corporate Real Estate, Capital One

Francisco J. Acoba, SLCR, Manager, Deloitte Consulting

Moderator Introduction

HYPOTHESIS:

Your company has announced an acquisition/joint venture with a company that has several US locations. Post-acquisition, it is clear that operational and physical space redundancies will exist within the newly merged business units. Further, several new business units will also be created. And, no surprise, several of the acquired company locations overlap with the existing locations. Given the corporate reporting structure of your real estate group, how would you approach the restructuring and rationalization of this combined portfolio? How does this effect your existing service providers? Who is the ultimate decision maker with regards to redundant locations and people?

Moderator Introduction

Barry Beswick from Capital One reports to Human Resources

Shelly Bloch, as part of Sony's CRE, reports to General Counsel

Daniel Wright and his CRE department report to the CFO



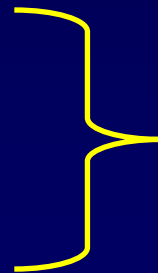
The Influence of Corporate Strategy on Real Estate Organizational Structure

Corporate Real Estate reporting to HR

**Barry Beswick
Vice President, Corporate Real Estate**

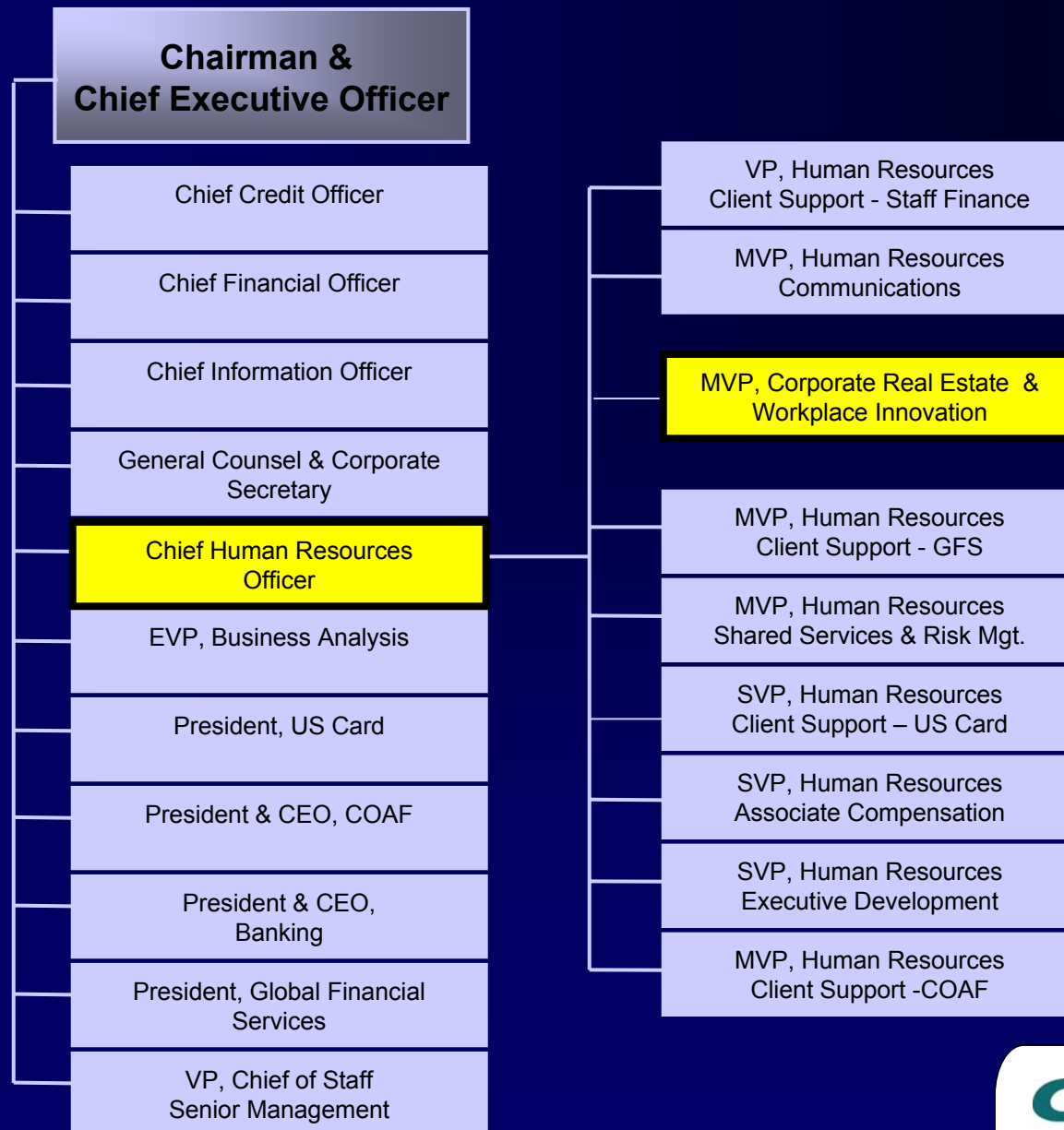
Capital One Strategy

- **Build “End Game Player” scale in targeted financial services sectors**
 - Maintain market leadership
 - Build brand identity
 - Grow by acquisition
- **“No Hassles” customer experience brand**
 - Work backwards from customer
- **“Information Based Strategy” (IBS) analytical core to company**
 - Testing
 - Analysis
 - Micro-Segmentation

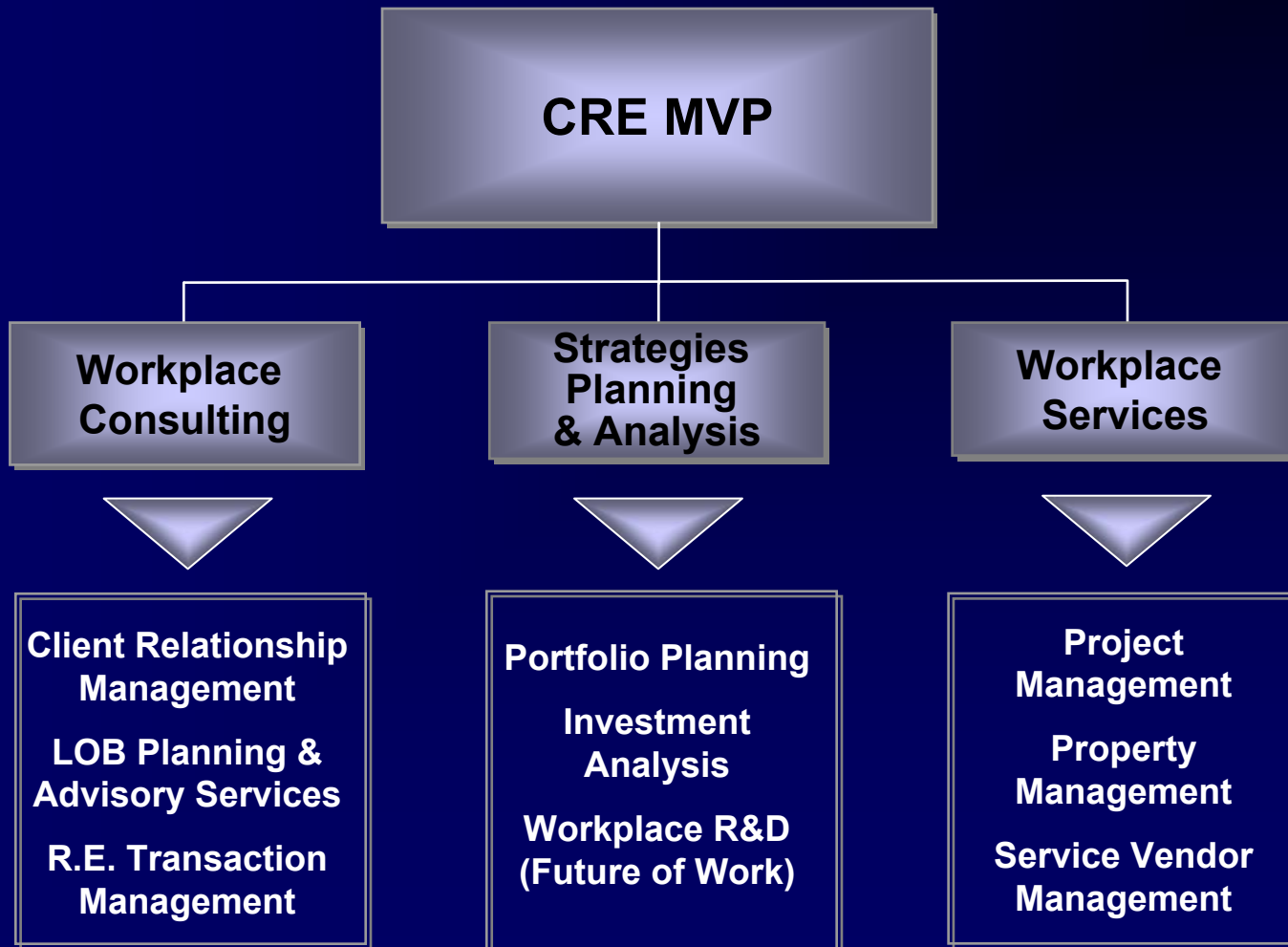


Mass
Customization

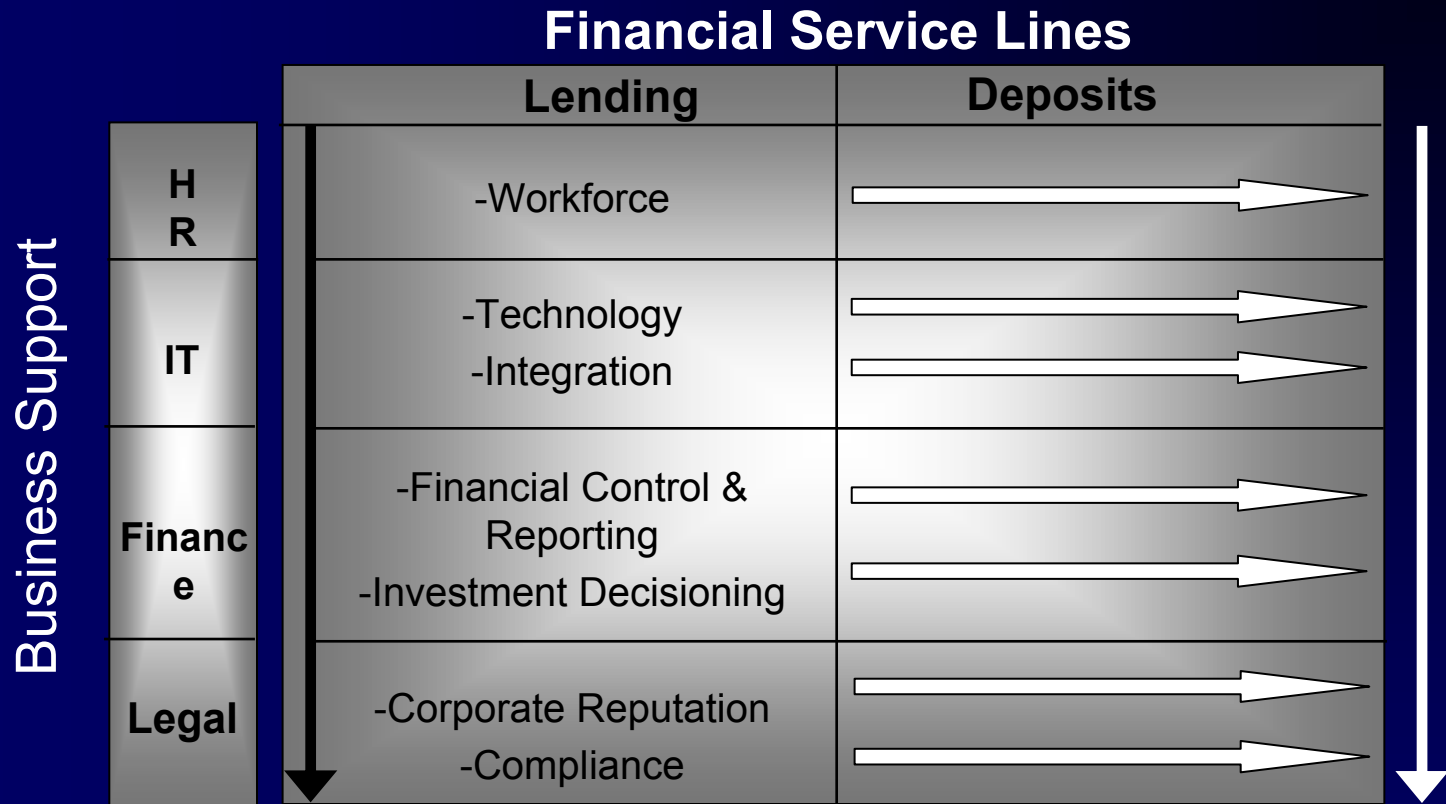
Where does CRE Fit in Capital One?



CRE Organization Model



Capital One – CRE reports to HR - Why?



Where does CRE Fit?

- **CRE provides Workplace Innovation**
 - Workforce Productivity – HR – **KEY FACTOR**
 - Virtual Work – IT
 - Affordability – Finance
 - Risk Management - Legal

“Acquisition Announced” What is the Process?

1. Company establishes Integration Program Management Office (PMO)

- Business lines and support functions assign staff to PMO
- Integration targets developed by PMO with key executives

2. Focus on portfolio

- Workplace effectiveness
 - Workforce support
 - Space quality and innovation
- Redundancies/overlaps
 - Overall portfolio look
 - “Right place” for workforce
- Level of services and amenities
 - Compared to Capital One



“Acquisition Announced” What is the Process? (Continued)

3. Evaluate CRE Function

- Internal staff, organizational structure and work load
- Connection and reporting relationship
- Systems, controls and processes
- Service providers – scope, staff and contracts

4. Recommendations

- Organization model, including service providers
- Portfolio opportunities
- Services levels
- Staffing mix & match
- Systems and reporting fits

What is the HR Benefit?

1. Workforce Focus

- “KISS” – It is all about people!

2. Stress recognition

- It is all about the people!

3. Change management

- It is all about the people!

4. Service level importance

- It is all about the people!

Do you see a theme here?



Effect on Existing Service Providers?

1. “No Brainer” – Will they keep the account?
2. Decide which entity has better services and providers
3. Open dialogue with all providers
4. Rolling changes over longer time span



Who is the Ultimate Decision Maker on Redundant Locations and People?

- 1. Combination of senior management following rigorous Information Based Strategy (IBS) type analysis**
 - Right business direction
 - Fit with future plans
 - Fair treatment of people
 - Consequences and downside researched
 - Morale
 - Reputation
 - Business
 - Consultation and consideration in management chains
- 2. CRE is accountable executive for real estate portfolio recommendations and execution**
- 3. Capital One CEO, with acquired company CEO's inputs, makes ultimate decisions**



The Influence of Corporate Strategy on Real Estate Organizational Structure

Corporate Real Estate reporting to Legal

Shelly Bloch
Manager, Corporate Real Estate

SCA/RE Organizational Structure

Professional Staff

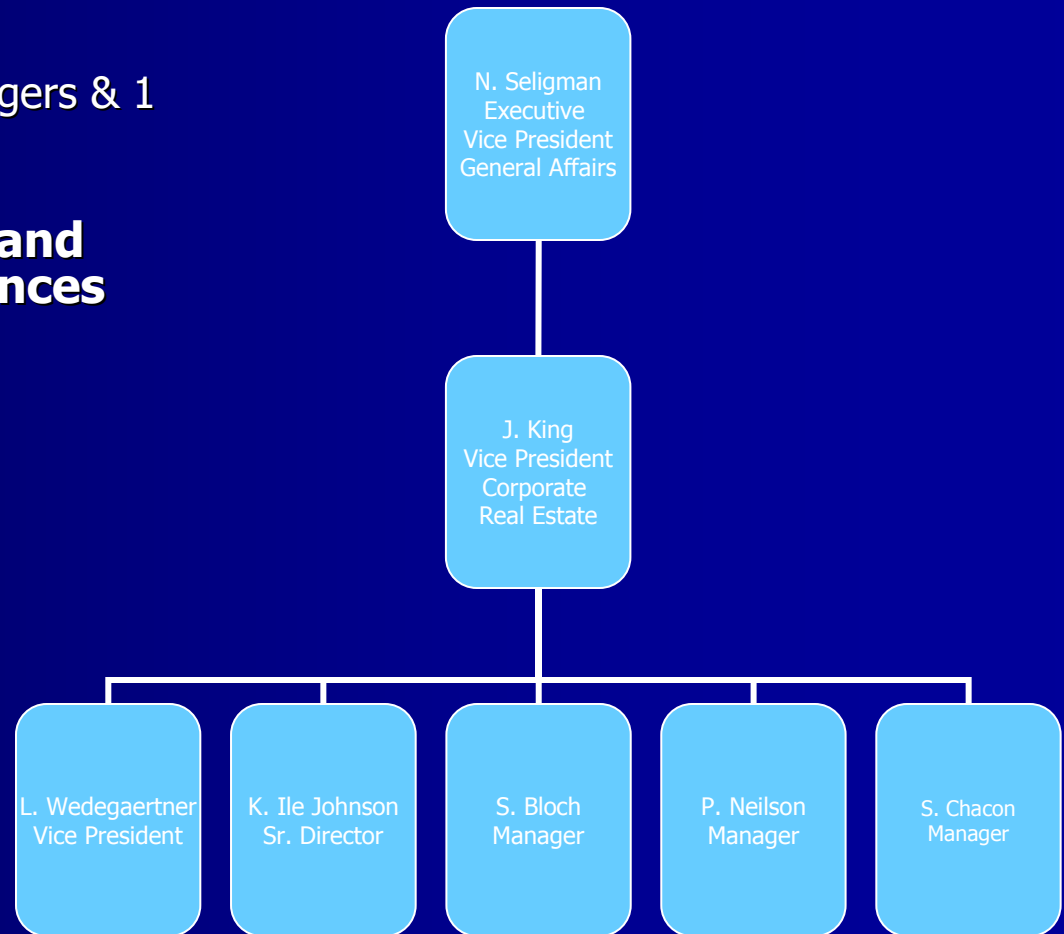
- 2 VPs, 1 Director, 3 Managers & 1 Analyst

Local Facilities Groups and Inter-company Alliances

- Legal Department
- Project Managers
- Planners & Designers
- Facility Managers
- Controllers and Accounts
- Payable groups

Outsourced Service

- Providers
- Brokers



Sony Corporate Real Estate

- Client base to include:
 - Sony Computer Entertainment of America
 - Sony Electronics
 - Sony Pictures
 - Sony Music Entertainment
 - Sony Corporation of America

- Sister Companies
 - Sony BMG
 - Sony Ericsson
 - Sony Europe
 - Sony Canada
 - Sony Tokyo



Joint Venture – Sony & BMG

- Assignment of Leases for existing properties
- Review of overall portfolio for duplicate locations/redundancies and upcoming expiration
- Headcount consolidation review
- Transition of Different Cultures

Post Joint Venture

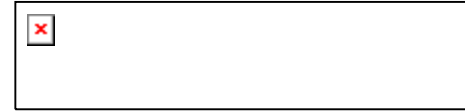
- Evaluate, report and recommend consolidated locations
- Perform Financial Analysis
- Consolidation of Real Estate Departments
- Transition of Legal files
- Training

The Influence of Corporate Strategy on The Real Estate Organizational Structure

Dan Wright

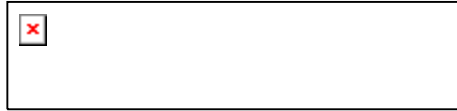
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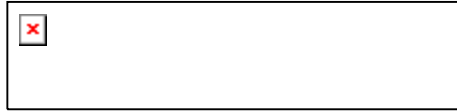
Computer Sciences Corporation

- Headquarters in El Segundo, California
- #175 on Fortune 500, 2004
- 79,000 employees
- Founded in 1959, Computer Sciences Corporation is a leading global information technology (IT) services company.
- Systems design and integration; IT and business process outsourcing; applications software development; Web and application hosting; and management consulting.
- Revenue of \$13.9 billion from continuing operations for the 12 months ended Dec. 31, 2004. For more information, visit the company's Web site at www.csc.com.



Federal Sector Real Estate Portfolio

- 233 sites
- 7.4 Million square feet
 - 31 states
- 227 leases
- 6 owned sites
- Real Estate alliance partner: Johnson Controls, Inc. (JCI)
United Systems Integrator (USI)



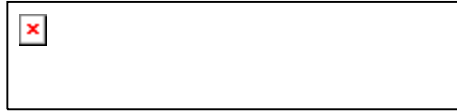
Our Process

- Establish Transition Team
 - Team members consist of Senior Executive, CRE, Contracts, Legal, HR, Security, IT and all business unit leadership
 - CRE will report to Transition Team for this assignment



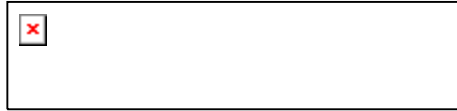
Objectives

- Short term
 - Cost reduction
 - Head count
 - Short term space reductions
 - Lease review
- Mid term
 - Planning for lease synergies
 - Integration of Portfolio Tools
 - CAD
 - Lease database
- Long term
 - Integration of staff
 - Implementation of portfolio synergy planning



CRE Role

- CRE team consists of Real Estate service provider, Corporate staff and in-house CRE staff.
- Team will identify redundancies and surplus in the portfolio
 - Look for short term/immediate opportunities
 - Plan for mid-long term adjustments
- Report to Transition Team on a weekly basis for progress



Reporting structure

- CRE normally reports to CFO
- Will report to Transition Team during the transition phase of three to six months
- Then will revert back to normal reporting structure (CFO)



Role of reporting structure

- How does the reporting structure effect any decisions during transition? Does it change after transition?
 - Most important factor is cost reduction – before, during and after
- Who is the ultimate decision maker and how does that effect any decisions during or after transition?
 - Transition Team Leader is decision maker during transition. After transition it reverts to CFO.
 - Only negative is that Transition Team Leader may have short term goals only.



CSC Reporting Structure

- CRE is part of the Finance & Administration Division
- Financial objectives are critical drivers
 - Headcount per square ft
 - Cost per square ft.
 - Percentage of vacant space
- Attaining these benchmarks an important factor in the success of the acquisition



Align with Corporate Strategy

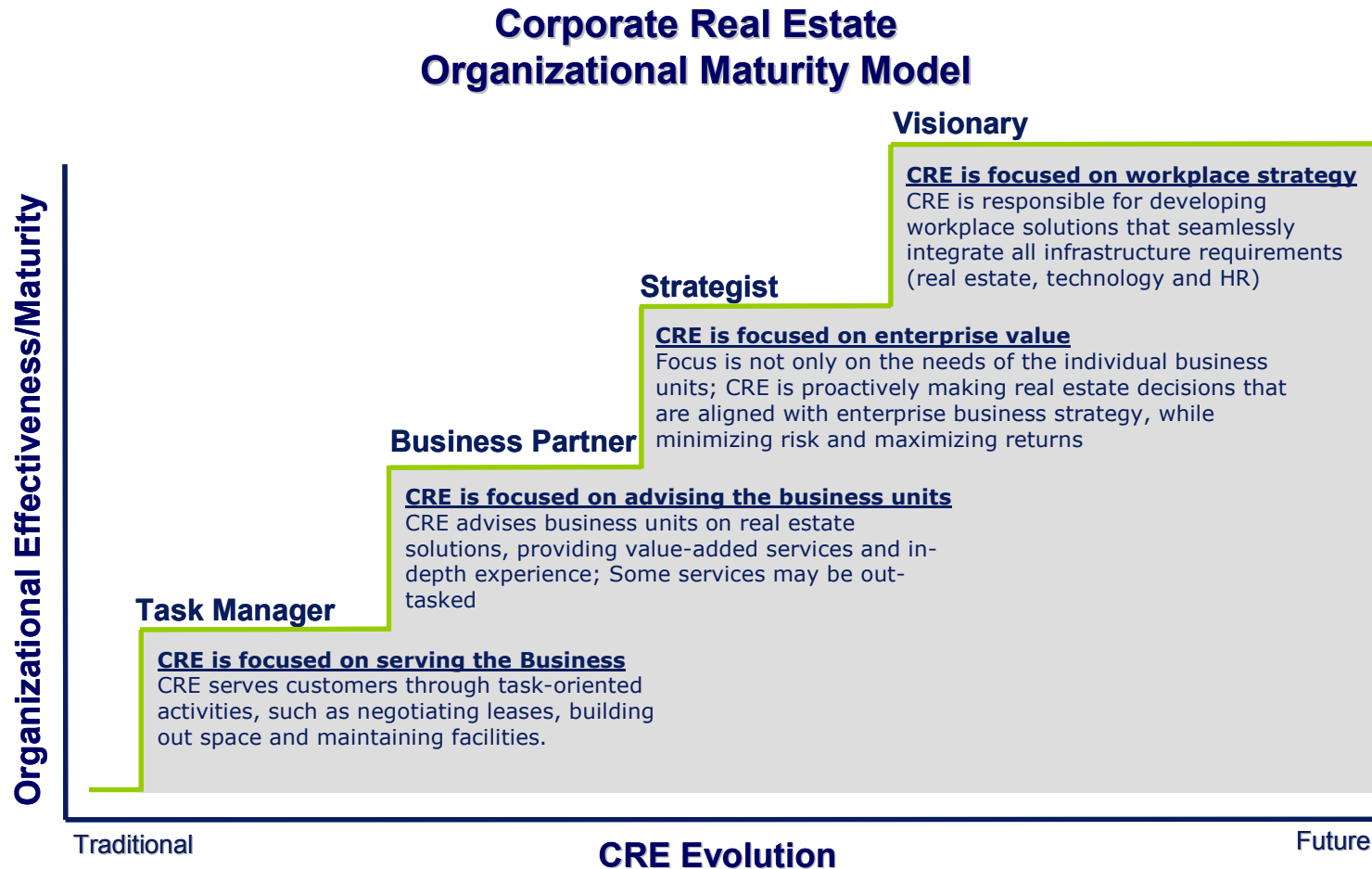
- How does the CSC real estate organizational structure become a tool to support or benefit the overall corporate strategy?
 - CRE needs to be involved in business decisions which may effect the financial health of the company
 - Managing the Real Estate Portfolio – shrinking when business is down and rapidly expanding when business is growing
 - Real Estate costs are the #2 cost to the company after labor
 - Real Estate decisions can have a huge financial impact
 - A long term lease/owned property can have a financial drag on the profit margin

Key Findings

- CRE / WPR organizational alignment (reporting structure) is influenced by industry, organizational maturity, and corporate culture
- CRE / WPR organizations are often aligned to Finance, HR, General Counsel, the CAO, Shared Services, Operations, Manufacturing, or other corporate functions
- Proper organizational alignment is critical to enabling the success of CRE / WPR and its initiatives
- Regardless of alignment... financial analysis is necessary for effective decision-making

Leading Practice – CRE Should Align to Business Context

CRE organizational alignment (reporting structure) is influenced by industry, organizational maturity, and corporate culture

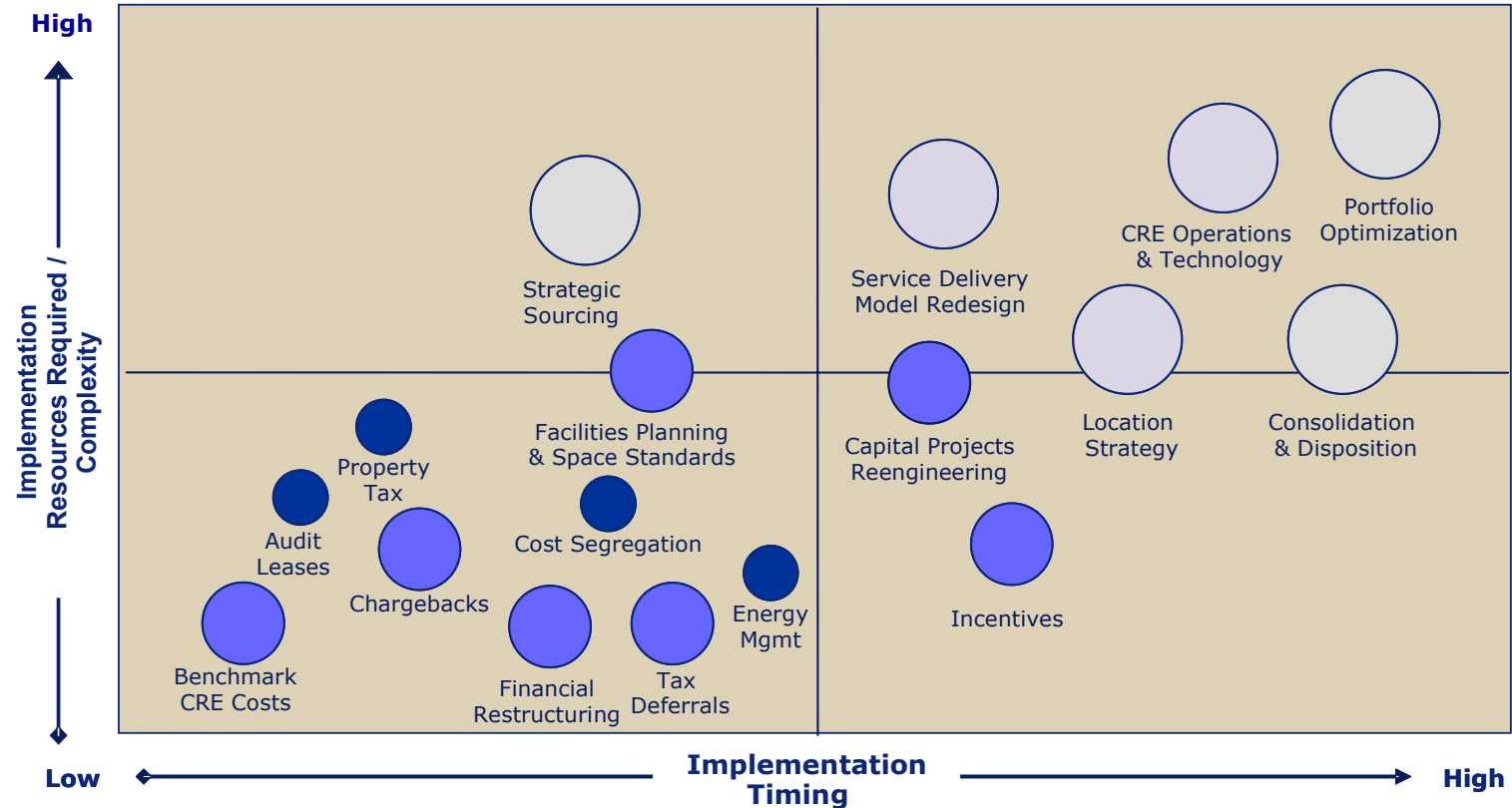


Source: CRE Transformation, Strategy & Operations Practice, Deloitte Consulting LLP

Leading Practice - Position CRE as a “Strategic Lever”

As the 2nd or 3rd largest spend category, CRE impacts shareholder value

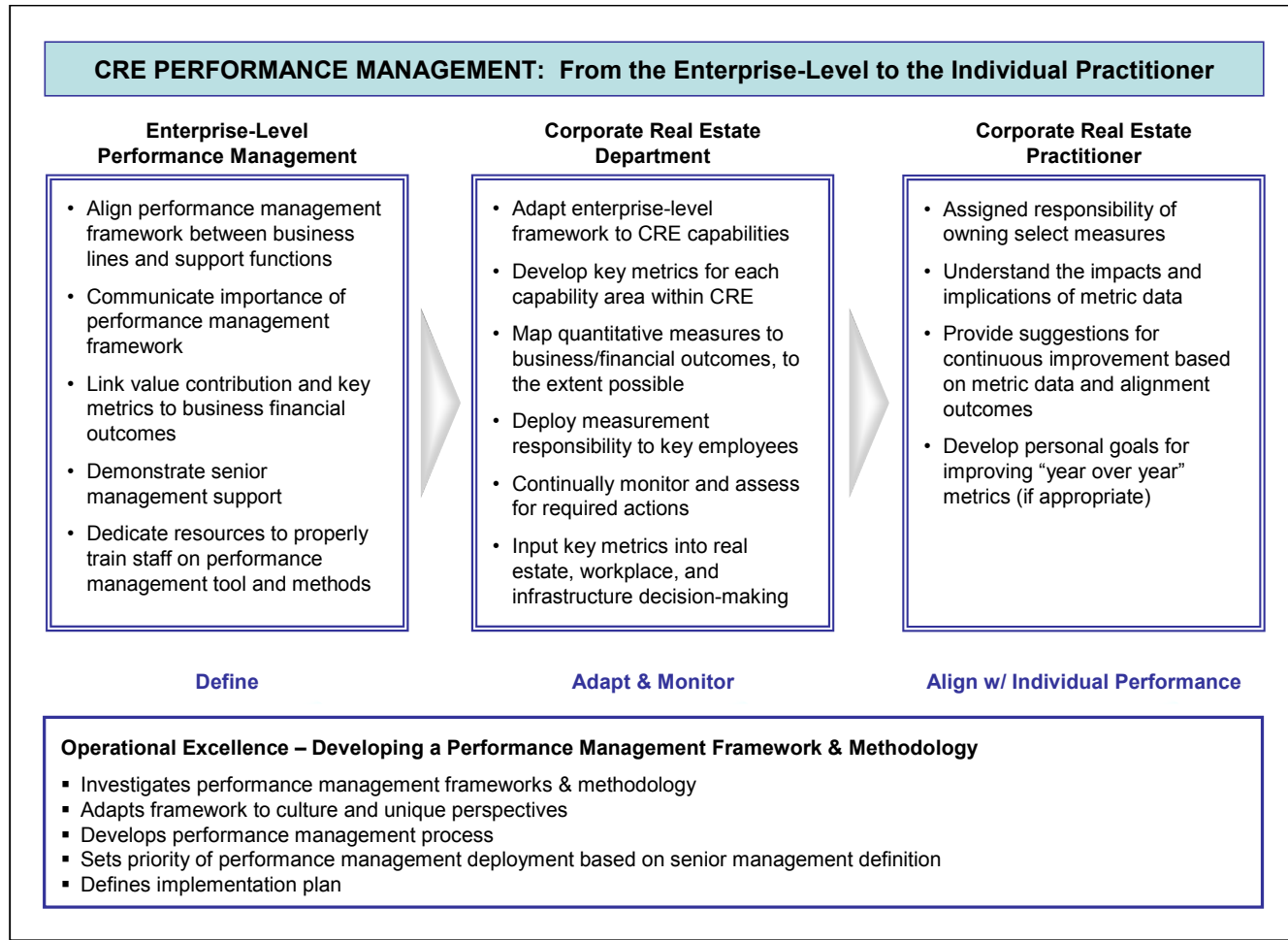
Overview & Impact of CRE Improvement Strategies



Source: CRE Transformation, Strategy & Operations Practice, Deloitte Consulting LLP

Leading Practice - Align Performance Management Models

Reporting Structure Should Influence Selection of Performance Measures



Source: CRE Transformation, Strategy & Operations Practice, Deloitte Consulting LLP