



nerej

"Changing corporate procurement practices"

December 08, 2011 - Appraisal & Consulting

The New England/Upstate NY CRE Chapter held a joint event with the New England CoreNet Chapter on November 18th in Boston. Approximately 35 CREs and CoreNet members attended this program entitled "Changing Corporate Procurement Practices: Impact on Real Estate Service Delivery." The program was organized by Marti O'Mara, CRE and Michele Flynn, CRE. Flynn had 2 guest speakers, Karen Pritchard of Wellington Management and Don Conover, EVP of State Street. O'Mara opened the program by stating that service providers are experiencing a trend of procurement services becoming more professional, utilizing more in-depth RFPs and requiring more in-depth responses. It has become a hefty task for service providers wanting to win assignments.

Flynn began with stating that there is a great deal of data that is now to be provided and the supplied to the C-Suite for service vendor decisions to be made. Some of the burdensome data is mandated by law or a general industry practice. Three-fifth's of chief executives believe their company brand and reputation represents more than 40% of the company's market capitalization. If a company's subcontractor or the subcontractor's subcontractor messes up and turns the company on the first page of the newspaper, it is not good news. Someone will lose his/her job. The reputation of the company is critical and therefore who they hire is to be scrutinized. Flynn concluded that today it is all about profits at the top and the bottom line. Companies have Chief Procurement Officers who are to enhance profits. Today service providers have to expand their relationships and become known.

Pritchard stated that old relationships can no longer guarantee you a contract. There needs to be due diligence on each service provider even if one of the firms has been a long time provider. A company might consider requiring monthly financial reporting or may require threshold criteria to maintain the contract. Does the service provider have recent "bad press? Lawsuits? Problems paying bills? Corporate should be aware of these issues and should have the right to cancel a service provider or offer a time to remedy the problem.

Conover gave the last presentation. Don stated that the amount of regulatory oversight is unbelievable. He has 29 federal agents that have desks in his company and live in his space that oversee everything State Street does. They have to be particular in their homework selecting service providers. Additionally as it relates to office space, it's all about flexibility. They expect to have 30% of their workforce on flex by 2014. If you are out of the office 3 days or more per week, you no longer get a seat/desk. They need to evaluate risk with vendors and within the many divisions of State Street. They also want to go "green" which is the push from the board. Leases at State Street averaged 17 years of remaining life. They now have it down to 7 years.

The 4 expense levers at State Street are 1) Occupancy 2) Tech 3) Head count 4) Staff. Those four drivers cost over \$7 billion. They have to cut down on all real estate and real estate related costs. State Street had 7.6 million s/f in 3Q of 2008 and now it's down to 3.6 million s/f. The efficiency of

operating real estate has had dramatic impact on the bottom line. We want to thank McCarter and English for allowing us to use their offices and sponsoring lunch.

Robert Nahigian, FRICS, CRE, MCR, is the 2011 CRE chairman of CRE/NE and president of Auburndale Realty, Co., Newton, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540