Strategic Positioning and Facilities Planning: Reviewing Business Plans and Facilities Strategies

by Reese C. Wilson

A facilities and real estate strategy review can provide information that will help corporate planners find the optimal match among corporate business units and available or planned facilities.

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The Planner's Dilemma:

The greater the degree of change, the greater the need for planning, otherwise precedents of the past could guide the future; but the greater the degree of uncertainty, the greater the likelihood that plans right today will be wrong tomorrow.

Emery & Trist[1]

Enterprise Success in Turbulent Times

In the 1990s and beyond, corporate leaders will be challenged by a business environment that is increasingly global, competitive and turbulent. In turbulent times, proactive planning, coupled with rapid-response capabilities, is the answer to "The Planner's Dilemma." The importance of corporate facilities and real estate assets will increase in the 1990s, as will the role of executives responsible for functions that have an impact on the value and usefulness of these assets.

This is the first of a series of three articles which will emphasize the review-analysis-planning cycle of strategic positioning and facilities planning. This article deals with the *review* component of the cycle. (The other articles, "Business Analysis and Forecasting Techniques" and "Planning for Results in Turbulent Times," will be published in upcoming issues and will cover the analysis and planning portions of the process.)

Each time an activity from the review-analysis-planning cycle is implemented, those involved with the process have an opportunity to improve the corporation's proactive and reactive capacities, as well as its rapid-response capabilities.

The importance of rapid-response capabilities –– especially flexibility — is crucial to Apple Computer. Bob Hecox, Apple's manager of real estate services, achieves flexibility in his 165-lease portfolio through either sheer size of aggregate space, flexible terms and conditions, or size *and* flexibility.

"Flexibility is a key concern with all of our facilities," Hecox says. "But it is much more important for the 100 leases scattered around the country than for the 65 leases concentrated in Silicon Valley where the aggregate space is large and varied enough to match user requirements with lease dynamics through our facilities-planning process."

The review of business and facilities plans should focus on a few key variables: strategic-management indicators, planning factors and standards. The strategic review should answer two questions: "Where are we today?" and "Where do we say we want to be tomorrow?" Table 1 outlines the factors that should be considered by the strategic review.

Strategic-Positioning Assessment

Review of the Big Picture: A strategic-positioning assessment is a comprehensive situational view based on existing business plans. The strategic-positioning assessment yields information and knowledge to support a parallel facilities and real estate strategy review and subsequent analysis and planning activities. Corporate business plans vary from the formal and well-documented to the informal and undocumented. The strategic- positioning assessment must be tailored to work within each corporation and each strategic business unit. Approaches that work in one situation may not work well in another.

Strategic business planning usually emphasizes market and product positioning. The allocation, deployment and optimization of resources should help achieve planned goals and objectives. Products (goods and services) produced by strategic business units comprise a product/market portfolio. Investments in existing markets and products are periodically assessed along with potential investments in new markets or new products. The *market potential* for each product line is reviewed by the strategic leadership team vis-a-vis *enterprise potential.* To determine market and enterprise potential, strategic planners must answer the questions below.

- **Market Potential:** What is the present and future market for this product line or product?
- **Enterprise Potential:** How well have we positioned –– or how well could we position –– this line in the marketplace?

For each existing product line, or products within a line, a build, hold or harvest posture is adopted to include strategic elements such as those suggested in Table 2 (new product/market investments usually imply a build strategy).

Appropriate Knowledge of the Current Situation: The executive charged with the facilities and real estate planning function must understand the plans, strategies, resource requirements, and current resources of the corporation and its strategic business units. Special emphasis must be placed on business-decision variables having an impact on facilities resources and real estate assets. It is useful to differentiate between guiding and supporting strategies:

- **Guiding Strategies:** The current and planned product mix within each strategic business unit usually embraces a combination of build, hold and harvest policy goals whose joint impact is reflected in long-range and near-term forecasts of revenue and sales goals and related resource requirements. Each market segment or target market, by design, should have a unique marketing mix — product, price, promotion and distribution — with unique strategies.
- **Supporting Strategies:** To achieve current and planned business goals and to implement guiding business strategies, each strategic business unit must have existing resources and should identify requirements for future resources. Four modular-mix variables — people, technology, space and place — are critical to the goals and strategies that support guiding strategies. Although decentralized strategic business unit managers are increasingly responsible for traditionally centralized staff functions, most corporations have highly specialized professionals for product marketing and innovation, process innovation and resource coordination (e.g., financial, human, information, facilities and real estate resources) at the corporate level.

Facilities and real estate strategies must support corporate strategic direction, build-hold-harvest goals and marketing mix strategies. Strategic decisions can result in (or from) abrupt or incremental changes. Abrupt changes, such as major acquisitions and divestments, have a significant impact on modular-mix variables. As defense contractors well know, the award or cancellation of a large program can also have a significant impact on modular-mix variables.

As Thomas Spence, senior facilities manager for McDonnell Douglas Electronic Systems Co., puts it: “Although McDonnell Douglas has good business and facilities plans, if we win a large government contract, then we scramble.” All facilities and real estate executives interviewed for this article whose companies must cope with Department of Defense procurement procedures commented on the extreme uncertainty associated with defense program awards.

Incremental changes, on the other hand, are usually based on sales forecasts and new technologies that influence headcount and space forecasts. These changes develop more slowly or more rationally over an extended planning horizon. The strategic facilities and real estate planning process and plans must consider abrupt- and incremental-change scenarios. As the product/market portfolio changes, so must the facilities/real estate portfolio.

Linking Business and Facilities Planning: The facilities/real estate portfolio must be designed and adjusted to strongly support the product/market portfolio. Space must be expanded, optimized and contracted as required to support corporate and strategic business unit requirements. It is not uncommon for all three of these facilities-planning activities to be occurring simultaneously somewhere within the corporation, as discussed below.

- **Expansion:** Most corporations are expanding parts of their business.
- **Optimization:** This should be an ongoing portfolio activity.
- **Contraction:** This can result from divestiture, downsizing, out-sourcing or consolidation.

The facilities and business planning process must be tightly linked to be able to anticipate and respond to abrupt and incremental change (see Chart 1). The strategic-positioning assessment should yield a comprehensive picture of the situation within the corporation and its strategic business units. Knowledge of business strategies to implement build-hold-harvest and related marketing-mix goals and objectives is crucial to facilities and real estate strategy development.

Facilities and Real Estate Strategy Review

Facilities and Real Estate Portfolio: The facilities and real estate strategy review should consider the appropriateness of current (and currently planned) strategies in the light of build-hold-harvest goals and objectives, marketing mix, and other business realities and requirements. Given knowledge from the strategic-positioning assessment, coupled with sales, headcount and space forecasts, the current modular mix and highest- and best-use alternatives can be reviewed to determine what the optimal space-support posture should be for corporate and strategic business-unit functions.

The adequacy of facilities and real estate resources must be questioned. Charles Winn, director of corporate real estate for Rockwell International, underscores this point by saying that many companies make the mistake of building facilities with no resale or residual value.

The facilities/real estate portfolio review identifies important issues to consider as well as analysis tasks. The alternatives shown in Table 3 should be kept in mind during the strategy review.

Modular-Mix Indicators: Each facility in the portfolio contains one or more modules (i.e., logical organizational chunks). Each module is distinguished by its modular mix — people, technology, space and place. The value and cost of each module is influenced by the modular mix. A number of useful strategic-management indicators, planning factors and standards can be developed and used to help manage and optimize real estate investments (see Table 4). If time-series data are available for measures like those shown in Table 4, useful longitudinal and cross-sectional comparisons can be made.

Highest- and Best-Use Assessments: The value of corporate facilities and real estate is dependent on three kinds of values: enterprise, user and market. Art Sellgren, director of real estate and development at Rohr Industries, says that his organization looks most closely at value to shareholders and user satisfaction. Strategic decisions should consider the value of each facility and parcel from at least three perspectives:

- value to the enterprise in terms of shareholder value and contributions to strategic direction, corporate goals/ policies, and strategic business unit objectives and strategies;
- value to the present user or to possible future users; and
- value in present or future real estate and property markets.

The assessment considerations shown above yield highest- and best-use knowledge that can be translated into cost-effective decisions, actions and results. Not all corporations consider highest- and best-use opportunities in their plans and decisions. If the market value exceeds the value to the enterprise, a higher and better use might be appropriate now or in the near-term future. Unfortunately, it is often the corporate raiders who notice highest- and best-use opportunities first.

Gary Alfson, vice president at The Koll Company, notes that hostile takeovers have forced CEOs to take a closer look at the value of their real estate assets. He adds that this has increased the value of real estate executives.

Facilities and Real Estate Strategy Review: Given knowledge of guiding business strategies and corresponding facilities-support postures, along with a feel for modular mix and highest and best use, it is prudent to take yet another look at the status of existing and planned space comprising the facilities and real estate portfolio as well as strategies related to the space. Several perspectives are useful. For each of the points covered below and in Table 5, ask: Can current or planned strategies be improved?

- **Space Capacity and Utilization:** What is the present and planned use, capacity and utilization of this module? Is the user paying the current market rate? Is there a higher or better use for the space? Is new space for this user or this module needed more or less quickly than planned?
- **Modular Mix:** Is the present or planned modular mix adequate? Could changes in people, technology, space or place enhance marketplace responsiveness, organizational effectiveness or operational productivity? Can throughput be increased for this module?
- **Value/Cost Ratio:** Does the value of this space to the enterprise or to the user justify its cost, or would some other arrangement benefit the shareholders, the corporation, business units, functions or users? Does the market value suggest another use?

Conclusion

The facilities and real estate strategy review is complicated, in part, because business units and facilities do not correspond on a one-to-one basis. Existing or planned space may completely house one or more corporate-level or strategic- business-unit-level functions (or modules) in one or more facilities at one or more locations. Finding the optimal match among organizational modules and available or planned facilities is not a trivial problem to solve. And what works today may not work tomorrow as new needs and priorities surface. Yet, information on a few key variables can help greatly.

The strategic facilities/real estate plan and supporting process should emphasize modular mix and value/cost variables. These and other variables are found in various strategic- management indicators such as return on assets, sales per employee, and occupancy cost per employee or square foot. If the facilities/real estate database includes actual value/cost variables for the past and present, as well as estimates for future key variables and indicators, the review step of the review-analysis-planning cycle is fairly easy. If this information is not readily available, the existing planning process and supporting systems should be improved or new ones should be developed.

All systems are infinitely complex. The illusion of simplicity comes from focusing attention on a few variables.

John Gail[2]

ENDNOTES

1 Emery, F.E. and E.L. Trist. *Towards a Social Ecology,* Plenum Publishing Co., London, 1973.

2 Gail, J. *Systematics,* New York Times Book Co., 1977.

SUGGESTED READING

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5 Pittman, Robert H. "Integration of Real Estate into Corporate Strategy: a Progress Report," *Industrial Development,* January/February 1989, pp. 2-3.

6 Wilson, Reese C. "Modular Positioning: Strategies to Enhance Competitive Advantage," *Industrial Development,* March/April 1989, pp. 433-438.

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1 Strategic positioning and facilities planning

2 Strategic management

3 Facilities and strategic strategy review