Disruptive Innovation in Corporate Real Estate
A presentation for the Minneapolis Chapter of CoreNet Global

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Verum Consulting, LLC is a Minneapolis-based real estate consulting firm that helps clients solve complex issues so they can develop sound business strategies.
About Me

- Outsourcing Specialist
- Best Practices Practitioner
- Business Developer
- Real Estate Consultant
- Academic
“God, I hope they don’t think I’m a Broker…”
(not that there’s anything wrong with that…)
Today’s Topics

- What is Disruptive Innovation?
- The evolution of the CRE Function
- The “Two Minute Warning” – how the Pros behave when the game is on the line.
- Disruptive or Innovative: You can be one or the other...but not both?
- Practicing Disruptive Thinking – The DisruptUs Game
- Success areas for Disruptive Innovation in CRE
- Some Tools for Success
What is Disruptive Innovation?
CNG Premise

Regardless of position, industry or geography we are all in the business of change; we are challenged to disrupt, to innovate and respond to an ever-changing set of business dynamics and economic conditions.

- Are disruption and innovation mainly centered on technology?
- How can you foster an environment that allows disruption and innovation to happen organically and with purpose?
- Change and disruption alone can create lots of issues. How can you align those efforts with strategic direction?
- Can innovation be the result of a big mistake? Are errors the ultimate disruptors?
Academic Premise

- Coined by HBS professor Clayton Christenson in 1995
- Innovation-driven growth would disrupt incumbent businesses ability to sustain business w/o addressing the new market entrant
- Behaviorally, incumbents are addressing the most profitable segments ignoring the “niches” such as low-end, non consumers.
- Incorrectly taken to mean any industry shakeup ie: Uber, Air BnB, etc. (Not True)
Disruptive Innovation in Practice

- HBR says: “When it comes to innovation, businesses are constantly hampered by functional fixedness and other cognitive biases that cause people to overlook elegant solutions hidden in plain sight.”
- Does that mean disrupt or die for CRE?
The Evolution of the CRE Function

**Corporate Real Estate Organizational Maturity Model**

- **Task Manager**
  - CRE is focused on serving the Business
  - CRE serves customers through task-oriented activities, such as negotiating leases, building out space and maintaining facilities.

- **Business Partner**
  - CRE is focused on advising the business units
  - CRE advises business units on real estate solutions, providing value-added services and in-depth experience; Some services may be out-tasked

- **Strategist**
  - CRE is focused on enterprise value
  - Focus is not only on the needs of the individual business units; CRE is proactively making real estate decisions that are aligned with enterprise business strategy, while minimizing risk and maximizing returns

- **Visionary**
  - CRE is focused on workplace strategy
  - CRE is responsible for developing workplace solutions that seamlessly integrate all infrastructure requirements (real estate, technology and HR)

**Source:** CRE Transformation, Strategy & Operations Practice, Deloitte Consulting LLP
Evolution of the CRE Function

Higher levels of partnering
- More transparent contracts
- Partnering strategies to share risk/reward (JV?)

More performance based contracting
- Alignment of fees (+/-) earned with value delivered
- Greater levels of risk/reward

Increased leverage of technology & best practices
- Operational improvements & best practices
- Technology spend & investment

Further reliance on vendor to identify/implement creative solutions
- Portfolio strategies & alternatives
- Operational improvements (e.g., energy)
- Financing alternatives (e.g., asset-liability transfers)
The “Two Minute Warning”
How the Pros behave when the game is on the line
Pro Football Team Behavior

- Practice contingency planning in order to change the play at the line of scrimmage
- The speed of implementation allows higher probability of significant yardage gains, clock stoppages or opponent mistakes
- Decision-making skills allow better management of resources, substitutions, time-outs, and the clock
- Team buy-in need not be questioned at this stage. Each individual’s self-awareness is apparent.
CRE Behavior

- Reluctance to transition back into taking accountability – “play to win” versus play “not to lose”
- Not up to speed on latest technology – over-reliance on service provider. Cannot use the technology to advantage
- Begin calling “conservative plays” and retreat into siloed communication by design
- Innovation becomes a sidebar
Disruptive or Innovative:
One or the other but not both?
Disruptive or Innovative

- Company’s cultural bias. Can’t come to the table with the “discovery” of a new way
- Required to pre-socialize the intent to weigh buy-in before heading down innovation path
- Innovation then becomes formulaic or forced
- Questions become: Does it satisfy a need? Can it be delivered? Can the cost be quantified?
- Is CRE Better off in a “sustaining innovation” mindset?
Sustaining vs. Disruptive

<table>
<thead>
<tr>
<th>Sustaining Innovation</th>
<th>Disruptive Innovation</th>
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<tbody>
<tr>
<td>Problem is well understood</td>
<td>Problem not well understood</td>
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<tr>
<td>Existing Market</td>
<td>New Market</td>
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<tr>
<td>Innovation improves performance, lower cost, incremental changes</td>
<td>Innovation is dramatic and game changing</td>
</tr>
<tr>
<td>Customer is believable</td>
<td>Customer doesn't know</td>
</tr>
<tr>
<td>Market is predictable</td>
<td>Market is unpredictable</td>
</tr>
<tr>
<td>Traditional business methods are sufficient</td>
<td>Traditional business methods fail</td>
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</tbody>
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Source: Forbes
Practicing Disruptive Thinking

“We need to innovate! Buck the status quo! Blaze a new trail! Here’s how everyone else is doing it...”
DisruptUs Game

- Create – given two items, come up with a new item that combines elements or the functionality of each. Make it New.
- Improve – take an object and consider a way or ways it can be improved. Make it Better.
- Transform – take an object that has a accepted purpose and change its use or function. Make a new Purpose.
- Disrupt – Come up with a different way to achieve the same purpose.
DisruptUs Game Examples
Success areas for Disruptive Innovation in CRE
Possible Success areas for CRE

- Wellness
- Workplace
- Technology
- Others?
Tools for Success

- DISRUPTUS Game
- Behavioral Assessment tools (eg: Ennea)
- Performance measures re-defined as CRE contribution to business success:
  - Enabler
  - Facilitator
  - Employee Retention
  - Connectivity
Tools for Success

Ennea Five Lens Assessment Tool. At the individual level, tools like this can assess personal mastery, emotional integration, social drivers and energy.
Q&A

THANK YOU!