Disruptive Innovation in Corporate Real Estate

A presentation for the Central Texas Chapter of CoreNet Global

Vik Bangia
Verum Consulting, LLC
7455 France Avenue South, Suite 200
Minneapolis, MN 55435-7402
(952) 807-1949
www.verumconsulting.com
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

@vikbangia
@VerumConsulting
“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 outsourced.

- **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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</thead>
<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 an 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 centers.
Gotta love millennials

https://www.youtube.com/watch?v=hLpE1Pa8vvl
Demographic Shifts Are Driving CRE Decisions

Millennials (ages 19 to 35) outnumber Baby Boomers (ages 52 to 70) 75.4 million to 74.9 million.

Gen-X will achieve that milestone in 2028.

- Workplace Needs and Behaviors
- Recruiting Challenges
- Lifestyle Changes

Deloitte Study: Only 28 percent of millennials feel their current organization is making full use of their skills.

Note: Millennials refers to the population ages 18 to 34 as of 2015.
Source: Pew Research Center tabulations of U.S. Census Bureau population projections released December 2014 and 2015 population estimates

PEW RESEARCH CENTER
Mobility is Driving CRE Decisions

Denver is recognized as a mobility transportation leader.

Millennials’ lifestyle needs are: Live. Ride. Share.

Deloitte Study’s main workplace themes are:
• Clarity
• Flexibility
• Satisfaction and Significance
“Build It And They Will Come”

Broomfield, CO: Aristalivework.com
Q&A

THANK YOU!

@vikbangia
@VerumConsulting