

AT&T Case Study: How We Restructured Real Estate Operations

by Lyle F. Garcia

AT&T is in the process of restructuring its worldwide real estate responsibilities. There are two objectives: improve the quality of services provided to business units and decrease total real estate occupancy costs.

This paper provides an overview of AT&T and describes the steps we've gone through in restructuring our enterprise-wide real estate operations.

AT&T is a major multinational corporation with annual revenues of more than US\$70 billion. As late as 1984, all of its revenue was derived domestically. Today, AT&T's non-U.S. revenues are about 25 percent, with a long-term objective to continuously increase that.

AT&T has approximately 305,000 employees worldwide, 50,000 of them deployed outside the USA. From a real estate perspective, we are reshaping in the United States and growing internationally. We have more than 150 million sq. ft. (13.5 million sq. m.) of space, of which just under 20 million sq. ft. (1.8 million sq. m.) are located outside of the United States. The portfolio is diverse: 60 percent owned; 40 percent leased. It is comprised of: office space (43 percent), equipment buildings (27 percent) and manufacturing and warehouse space (30 percent).

During 1993, we began the restructuring process. Our first challenge was to define the total cost of occupancy. We expanded the traditional definition to include not only real estate asset cost and property management cost, but also shared administrative costs such

as mail rooms, receptionists, and other people-intensive services. We concluded that AT&T was spending \$3.5 billion for these services and that we had an opportunity to decrease annual operating expenses by \$500 million as detailed below:

Potential Savings Over 3 Years

<u>Real Estate</u>	<u>US\$ Million</u>
Improving space utilization	100
Improving real estate processes	30
Minimizing vacancy	45
Improving portfolio planning and management	35
Reducing organization costs	25
(Overlap)	(35)
 <u>Facilities Management</u>	
Reducing building operations costs .	140
Reducing move costs	TBD
Taxes	25
 <u>Administrative Services</u>	
	135
Total	\$500

Our challenge, therefore, has become one of achieving these savings over a three-year period. While the process to achieve these savings has been complex and has involved many groups all over the world, all of our

actions can be simply summarized in three key points:

- We clarified and strengthened our corporate real estate policies.
- We clarified roles and responsibilities within the enterprise.
- We intensified our efforts to adopt best industry practices.

I'd now like to highlight a few critical elements of our plan that have helped us to be successful. First, we engaged all levels of the corporation in this undertaking. With our new charter defined, we first obtained senior management commitment to our \$500 million three-year, cost-reduction goal. We not only secured agreement to the financial savings target, but just as important, to performance measurements and joint ownership of the commitment between AT&T's many business units and the corporate real estate group.

Key linkages were put in place to connect the real estate operations group to its business units and to our enterprise financial target. A key part of this alignment process was a complete redefinition of authorities related to real estate asset commitments.

Decision Review: A Key Element

A second key element of our plan was to implement what we internally call the "Decision Review Process." Rather than taking the traditional approach of having the corporate real estate group serve as a policing force, we instead put a process in place to make visible those decisions that appear to disadvantage the shareholder or that fail to follow each

business unit's self-defined standards. The very existence of this process, whereby real estate decisions become visible to each business unit's senior management, has helped to improve the quality of our real estate decisions.

The next major element of our plan was to adopt a modified real estate commercial model. I emphasize the word "modified" because we were not only after recovering our costs or shifting our costs, but more importantly, we wanted to wring the cost out of the corporation. We therefore concluded that not only did we want to align as closely as possible with common measurements used in the commercial real estate market, but we added steps to ensure that shareholder interests were not damaged. We have come to compare ourselves not to the best American corporation, not to the best multinational corporation, but to the best in class in the commercial real estate market.

The next key element of our strategy is our geographic planning process. AT&T's current portfolio was not designed—it evolved. We have therefore put into place a geographic planning process throughout the world. The objectives of this planning process are to reduce our total occupancy costs, to support

the integration of AT&T's business units and to promote team work in the enterprise.

The typical geographic plan can take four months or more to complete. It includes a statement of objectives, the development of a comprehensive portfolio profile, the integration of AT&T operational plans and a market analysis. Short-term and long-term recommendations are made and approval is secured within the appropriate business unit management structure. In every plan completed to date, AT&T has been able to identify substantial long-term cost-reduction opportunities.

Willingness to Innovate

Perhaps the final significant point I'd like to discuss deals with our willingness to innovate, to consider options previously not explored. A few of these innovations, such as our geographic planning and decision review process, I've already discussed. In addition, we've moved aggressively to limit our supplier base by creating exclusive brokerage agreements within a geographic area. We've enlisted the support of commercial-based audit resources to help us achieve improvement to our lease management process, our construction process, and our property man-

agement process. We are aggressively pursuing alliances in both the property management and construction project management fields.

A final key strategy is that we've revisited our traditional corporate space standards and have been successful in obtaining the support of our business unit in defining new less-costly real estate solutions that still meet the needs of our units. We're now planning to consume less space per person and to more aggressively pursue alternative officing arrangements.

We're quite proud of what we have been able to accomplish within AT&T in just over a year. We have been able to exceed our own aggressive cost reduction targets. We have been able to better understand the gaps that exist in our process, our service quality, the skills of our people and in our organizational structure.

In spite of these successes, we look forward to several more years of intensive improvement effort to achieve our original cost reduction and quality improvement goals. *SS*

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