

Remington Global Holdings

How to Give this Case

This case tests the candidate in several ways: thinking through acquisition challenges, brainstorming organizational structures and reviewing savings opportunities. Here's a good flow for the case:

1. Read the introductory case question.
2. Answer any basic questions using the facts listed. Expect your candidate to lay out a simple structure early in the interview on how to discuss the problem.
3. After your candidate lays out an approach, begin discussing the case. Move the discussion through these parts:
 - What are the typical jobs and functions in a building and region?
 - What are the challenges with doing mergers & acquisition rapidly?
 - Explain the high number of layers throughout the organization and the need for simplification.
 - Introduce RGH's desire to focus on North America first and then look for savings elsewhere.
4. Give data so that the candidate can calculate and compare regional people costs.
5. Proceed to calculating the savings of rolling out the New York or Chicago management structure.
6. Discuss non-people costs and savings potential.
7. Close the case with consideration for non-US savings.

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Case Prompt

RGH, Remington Global Holdings, owns and leases buildings all over the world. With over 180 million square feet of space they are the largest commercial property owner on the planet. Over the years they have been acquiring buildings at a rapid pace, creating concentrations of leased office space in metropolitan areas (“regions”). They have also been assuring investors that economies of scale would certainly kick-in once they got big enough. But to date, profit margins have remained relatively the same despite their huge size. As a result, management is questioning what went wrong with their rapid acquisitions. They are happy with their footprint and do not want to grow revenue. They are also reviewing their cost structure (in particular, people costs) and regional organizational structure.

How would you help them focus on these two areas and find significant cost savings?

Case Facts (give this information if asked)

- *Revenue* – RGH brings in about \$3.6B in revenue from 180M square feet of space.
- *Office Space* – RGH has a variety of class A and B properties and leases mostly commercial space. Within each building there is usually a property management office that manages the day to day needs of the tenants. They have a small staff that handles the maintenance and administration of the building.
- *Structure by Region/ Country* – Management structure varies throughout the world. The US has about 12 regions with leaders of different levels. Management wants to focus on the US only for now. The leasing team sits at the regional level.
- *Cost Review* – After noting that revenue had steadily increased on a percentage basis over the last couple of years due to acquisitions but profit had not, management is focusing in on its costs. Despite expecting savings, the cost base has been increasing proportionally along with the revenue.
- *Case Focus* - Management reviewed the regional structures in all parts of the world against some rough benchmarks and is now ready to focus on the US. They would like to better understand their options for saving money while still maintaining the high level of service they offer today. They are concerned that a leadership change will negatively impact revenue.

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1. How would you approach this case?

People Costs

- Current Costs
- Sales, maintenance, paperwork
- Future opportunities to optimize (vendor relationships)

Organization Costs

- Current – building level vs. regional vs. national headquarters? Optimize revenues, costs, how to optimize better, change through reorganization.
- Resources – how to optimize and increase efficiency

2. What high priority data would you collect? And what challenges would you face?

- High Priority Data: fixed costs, people costs, organizational chart, roles and responsibilities by region
- Data Challenges: different sources, different data (apples to apples will be tough with the international footprint), decentralized information, lots of data not tracked

3. Since this industry is new to you, please walk me through the different jobs and functions you would find at a regional office or local building.

- Property Management: landscaping, security, cleaning, plumbing, electrical, repair, central office admin staff
- Leasing: initial marketing and research, show the space, negotiations on modifications, contracts & legal, billing

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4. Mergers & Acquisitions

RGH grew to \$3.6B in revenue and 180M in square footage quite rapidly. What are some of the challenges with that kind of growth?

- Integrating cultures and personnel.
- Removing unnecessary systems, procedures and personnel in order to achieve pro forma savings.
- Overly positive projections due to deal bias (financial advisors receive commissions for doing deals, not for advising against deals).
- Wrong reasons. The management team may want to acquire a building because of its status (e.g. Sears Tower in Chicago) but may pay too much for the purchase.
- Strategic buying bias. Another bias in the deal may have been the “need” to acquire a certain building or set of buildings to achieve market share in a region (e.g. Tokyo). RGH may have overpaid thinking that an acquisition was more important than it truly was.

5. Here's some data. What number did you get for people costs?

- RGH brings in about \$3.6B in total revenue over 180M square feet.
- 33% of revenue comes from the United States.
- Total costs are typically around 35% of revenue. So for the US, that would mean $\$1,200M \times .35 = \$420M$.
- People costs are about 33% of US total costs, \$140M.

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6. Let's talk about data (read this). What jumps out to you?

The US is divided into 12 regions, clustered mainly around large cities like LA or Dallas.

5 of the 12 sample cities have the following leadership structures:

- Dallas: 1 SVP, 3 leasing VPs and 4 property VPs
- NY: 1 SVP, 2 leasing VPs and 2 property VPs
- Seattle: 1 SVP, 3 leasing VPs and 2 property VPs
- San Diego: 1 SVP, 3 leasing VPs and 4 property VPs
- Chicago: 1 SVP, 2 leasing VPs and 2 property VPs

Average Salaries: SVP \$600K, Leasing SVP \$400K, Mgmt SVP \$200K

7. Looking at your data, what metric would help you make an apples to apples comparison among regions?

Answer: Square footage

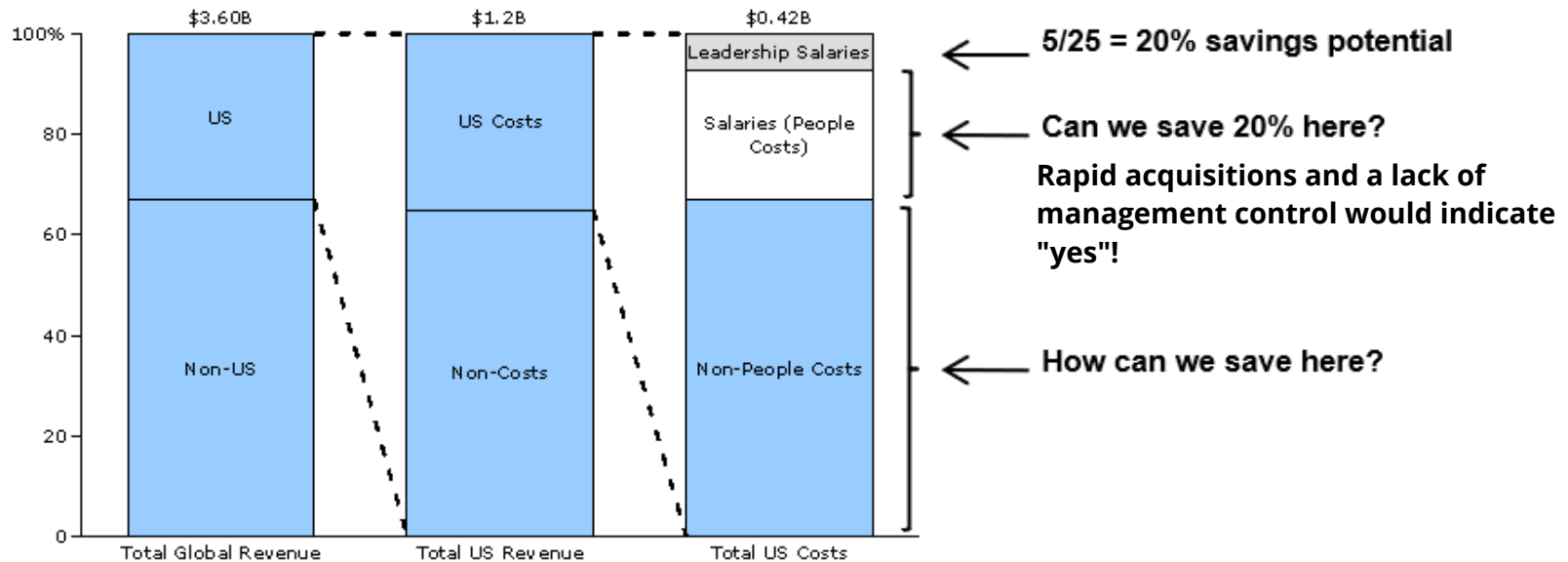
Review Tip: Be sure to look back at your initial notes 4-5 times per case.

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10. How are we doing in terms of finding "significant cost savings?"

- \$4-5M off of \$420M of NAM costs is very small. \$4-5M off of \$140M, is 3-4%, which is not much better.
- But look again at the data. At roughly \$2-2.5M for leadership salaries x 12 regions, the total would be about \$25M. Saving \$5M off of \$25M is about 20% savings!
- If you see a large, expensive management group like RGH's you'll likely see a lot of employees below them (people love building hierarchies). This is true of RGH because they have been expanding so rapidly.
- If we were to target a 20% savings across all employees (\$140 x 20%), we'd save \$28M.

Total RGH Revenue and Profit



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11. Where else can RGH save?

Hint: If the candidate does not say lower level people, then re-prompt by asking "how would you get people costs down?"

Use the formula: People Costs = # of people x amount paid.

With these two categories you can think of several ways to reduce costs.

of People

- Super regions - combine the leadership of several regions. This option assumes that there is no need for a local leader.
- Organizational flattening - review all the positions below the leaders and determine if more savings and consolidations are possible.
- Job best practices - comb the regions to find the most efficient way to do every job and make it standard.

Amount Paid

- External salary benchmarks - check to see the salary levels of positions like admin staff and maintenance crews.
- Internal salary benchmarks - review all internal salaries for consistency.
- Assess part-time vs. full time - could some jobs be converted to part-time?
- Benefits assessment - review total benefits pay-outs and see if there are more economical solutions.

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12. What about non-people costs?

- It's a large area estimated to be about \$280M.
- Review Tip: NAM costs = \$420M. People costs equals \$140M and non-people costs equals \$280M.
- After a few questions, tell the candidate that over 80% of it ($\$280 \times .8 = \sim\220) is driven by large equipment purchases like boilers, blowers, and elevator parts.

12a. If they save 10% with centralized purchasing, how much is that?

Answer: \$22M

Recommendations & Wrap-Up

What are your recommendations for RGH?

1. Reduce people costs, using the 1-2-2 management pattern. This will save \$5M. If you expand to all staffing, RGH could save $20\% \times \$140M = \$28M$
2. Reduce non-people costs with centralized purchasing and planning, for a potential savings of \$22.4M.
3. Go global with these changes. We found about \$28M of people cost savings and another \$22M (rough estimate) of centralized purchasing savings in the USA. That totals to \$50M. If we applied this savings rate to the other 66% of RGH's revenue, our global total would be \$150M.