

THE
COMMERCIAL
REAL ESTATE
REVOLUTION

Nine Transforming Keys to Lowering Costs,
Cutting Waste, and Driving Change in a Broken Industry



REX MILLER, DEAN STROMBOM,
MARK IAMMARINO, AND BILL BLACK

CoreNet Global
**INNOVATOR'S
AWARD**

Creating a Sense of Urgency

Abstractions or Emotionally Felt

- **\$500 billion annual WASTE**
(buildingSmartAlliance)
- **50%+ Waste in the System**
(buildingSmartAlliance and Lean Construction Institute)
- **70% Over Budget and Late**
(Egan report)
- **48% of Green House Gases**
(Energy Info Admin Statistics and Pew Climate report)



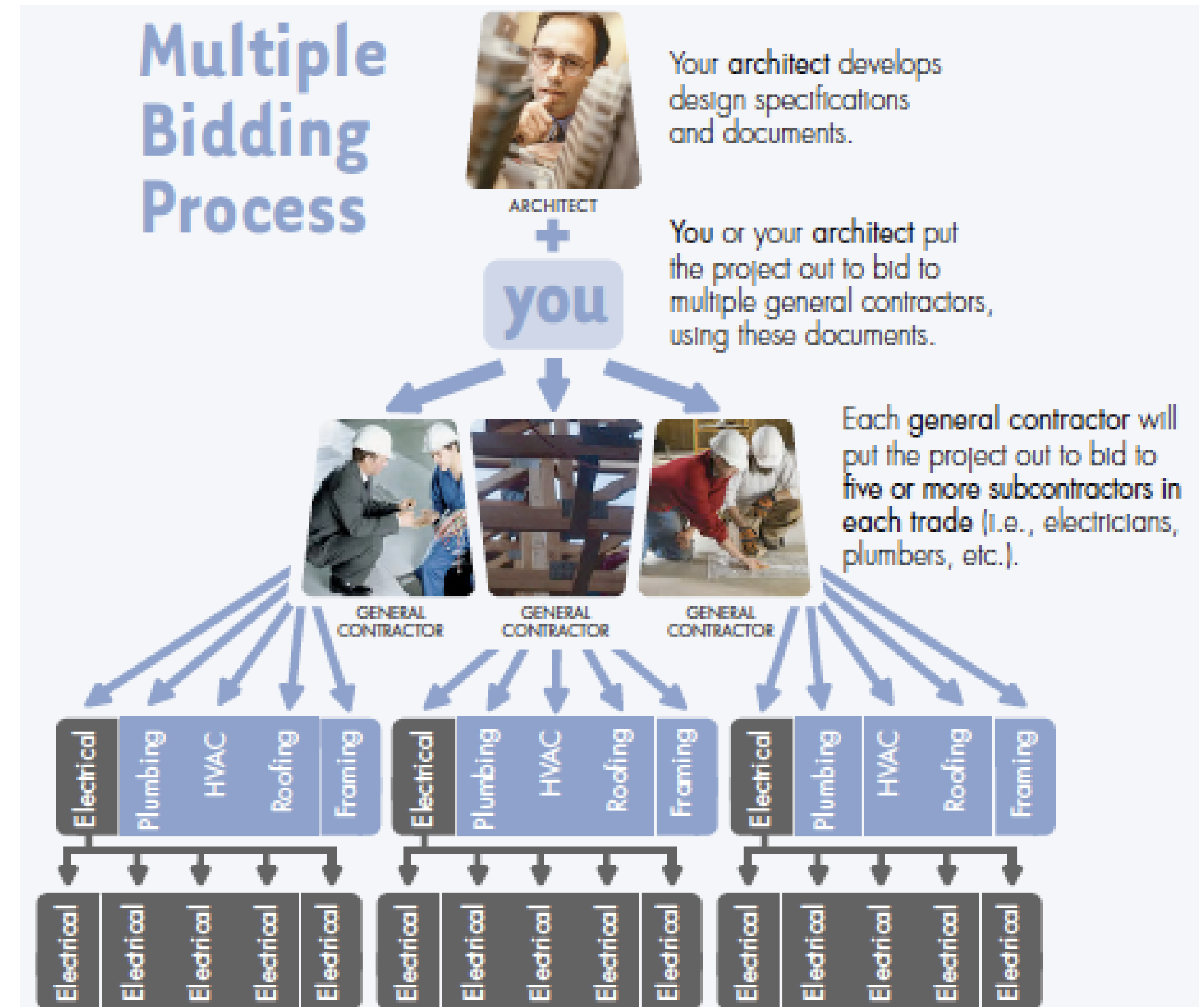
Where to Attack Waste?

- Labor = 50% @ 30% efficiency = 35% waste
- Materials = 40% @ 70% efficiency = 12% waste
- QTO = up to 10% of the cost
- Bidding = 5%+ of the cost of a project
- Change orders between 2-10% of the cost
- Contingencies up to 7%
- Team Learning Curve = 1-2%
- 3-7% is lost in project cost reduction by not maximizing Construction Tax Planning



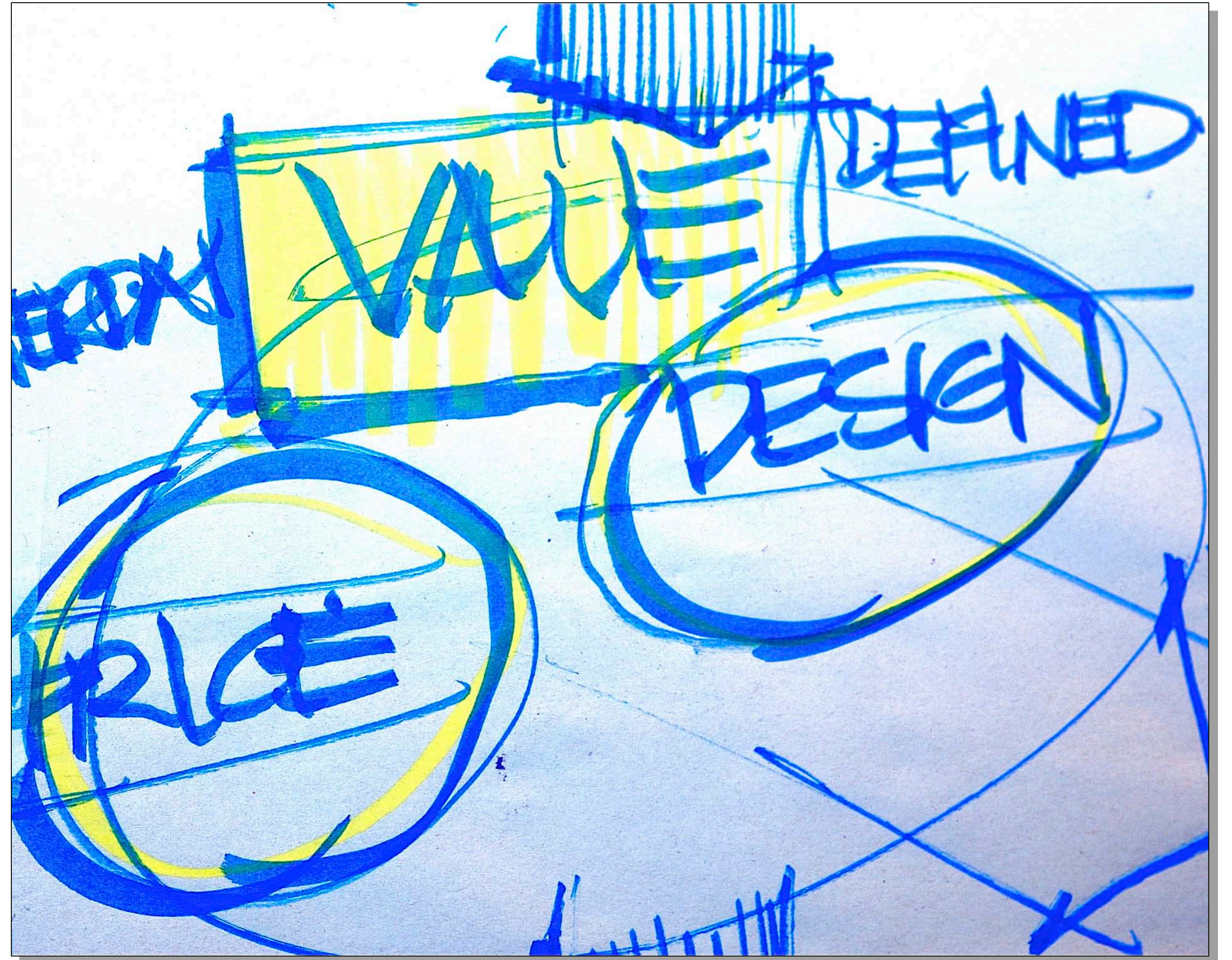
The Bid Game vs. Project Success Factors

- The bid \neq the business case
- Negative correlation between low bid and final cost
- Dilution of commitment
- Winner's curse
- Bidding is not apples-to-apples
- Cost of bidding gets recouped
- Fallacy of value engineering
- What does the bidder actually win?
- Campaign vs. Govern
- Romance vs. Marriage



Redefine Value and the Selection Process

- 85% of procurement is cost driven Design-Bid-Build
- Removing Waste
- Improving Quality
- Reducing Schedule
- Ensuring Intent



Select Teams not Players



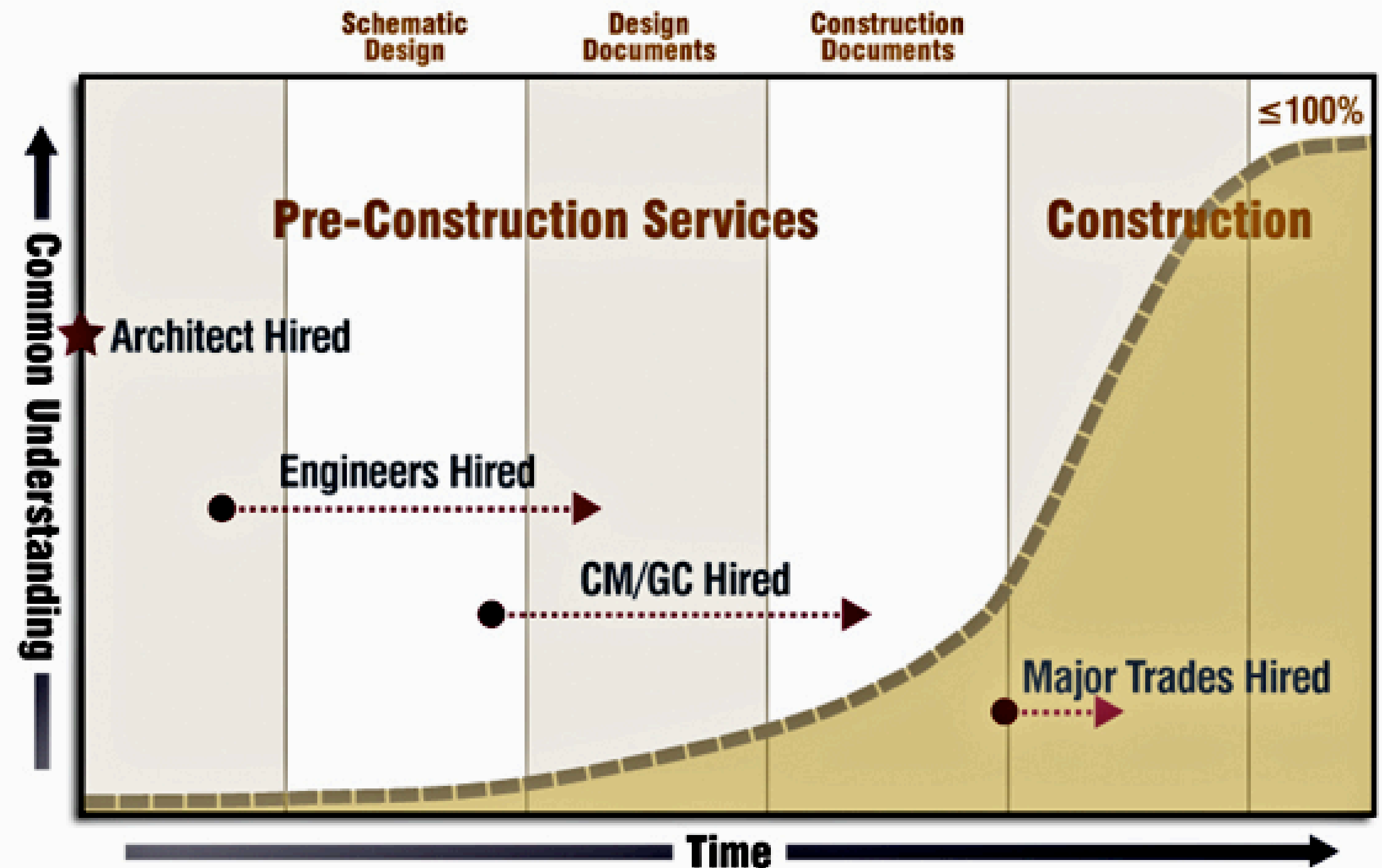
2004



2008

Shift the Cost and Intelligence Forward

- 80% of the Knowledge
- 80% of the Cost
- All Key Decisions Made
- Cost of Change is High

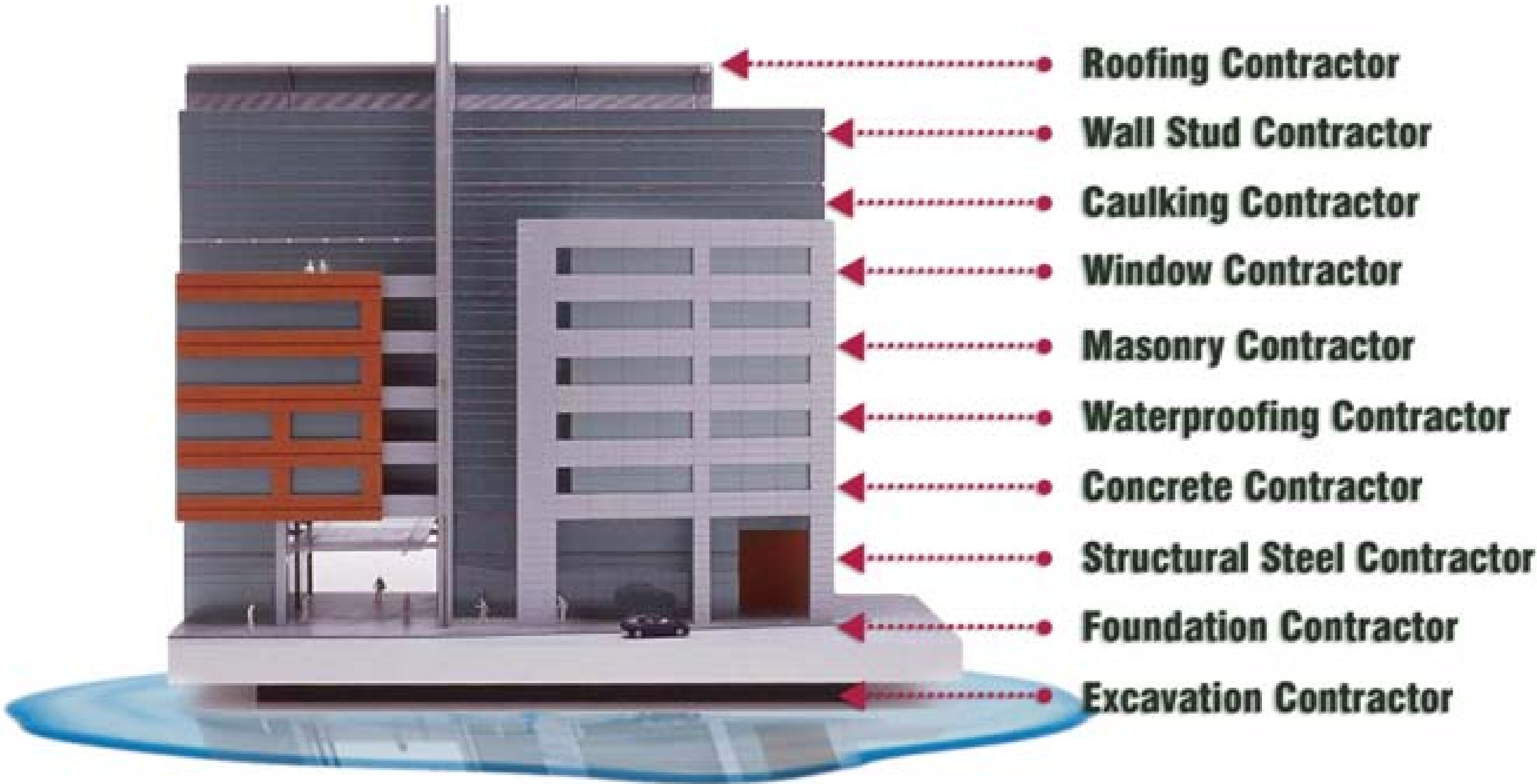


Adapted from:
MTA McDonough Holland & Allen PC
ARCHITECTS

“All of the big mistakes are made on the first day.”

Big BIM little bim

Change the Rules to Outcome Based Contracts



Adapted from: Todd Zabelle, Strategic Project Solutions

The ROI of Trust

- LogicaCMG study of 1200 contracts: 20% to 40% difference on service, quality & cost
- *Profitable Partnering for Lean Construction*: strategic partnering delivers up to 30% in cost savings of construction
- *Speed of Trust*: distrust creates a 50% tax on work
- Edelman Trust Barometer: 20% higher ROI over a 10 year period
- Warren Buffet: Handshake deal for McLean



Trust: From Deficit to Dividend

Trust Tax	-80%	-60%	-40%	-20%
Environment	Hated	Toxic	Stressful	Worry
Focus	Conflict	Escalation	Pre-emption	Process
Relationships	Anger	Hostile	Disrespect	Indifferent
Process	Open defeat	Sabotage	Hidden agendas	Chain of command
Behavior	Punish	Micromanage	CYA	Do my job
Outcomes	Grievance or Law-suit	Gotcha	Politics	Slow
Systems	Disintegrated	Dysfunctional	Distracting	Hassle
Ethics	Your ruin	Your harm	Self-interest	Compliance
Trust Dividends	Neutral	20%	40%	
Environment	No worries	Positive	Uplifting	
Focus	Scope	Outcome	Mutual success	
Relationships	Cordial	Cooperative	Collaborative	
Process	Task at hand	Keeping promises	Making it easier for others	
Behavior	Respect	Partnering	Transparency	
Outcomes	Efficient	Learn from mistakes	Improve	
Systems	Does not get in the way	Supportive	Adaptive	
Ethics	What is expected	What is right	What is good	

Call To Action

- Educate owners about the impacts of the current system (i.e. sustainability)
- Change the paradigm and change the system
- Change the goals and change the outcomes
- Self-organizing teams can grow and adapt
- Change the rules and change the behavior
- Create new feedback loops to allow adjustments in real time
- Work together and in parallel when possible to shorten decision delays
- Remove bottlenecks by jointing mapping out the process

