

Consolidation has its benefits -- and costs

Bringing together offices can result in big savings, but employee attrition is a risk

MARJO JOHNE

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As the backhoes arrive at what will be **Citigroup Canada's** new corporate campus in suburban Toronto, this latest example of a site consolidation offers lessons in the benefits of relocation.

But companies also need to take into account the human resources costs of an ill-considered move, experts warn.

Citigroup's \$59-million project will see about 2,000 employees from six locations brought together in a 200,000-square-foot complex in Mississauga. The future head office is a sprawling three-storey structure that features open-concept workspaces, a gymnasium, and a cafeteria that opens up to a patio. The blue and white building, scheduled for completion in the fall of 2007, will house several Citigroup business operations, including CitiFinancial Canada Inc., Citi Cards Inc., and Citi Commerce Solutions of Canada Ltd.

"This move is about efficiency and growth, as well as a preference for us to be the sole tenant in a state-of-the-art property," says Kenneth Quinn, chairman and chief executive officer of Citibank Canada, and country co-ordination officer for Citigroup Canada. "Our organization has grown by acquisition, particularly our [credit] card business, and we believe this new environment will allow us to build a stronger corporate identity."

In most cases, the financial benefits of consolidating multiple locations are obvious, says Nancy Cohen, vice-president of the strategic occupancy planning group at Cushman & Wakefield LePage Inc., a Toronto-based commercial real estate broker.

"When you have six or seven locations, there are duplications of a lot of services -- multiple mailrooms, copy rooms, reception areas, meeting rooms," she says. "If you're in one central location, you won't have these duplications, so you're saving on the costs of operating all these services."

Companies that merge multiple sites also typically save on the cost of telecommunications, shipping, property taxes and maintenance, Ms. Cohen says. But a trimmer budget isn't the only reason companies consolidate offices; putting employees together under one roof often results in a smoother work flow between departments. And it can also work wonders for a company's culture.

"Employees feel more like a team when they're in a campus where practically everyone works for the company," Ms. Cohen says.

While these potential benefits make a strong business case in favour of multioffice consolidation, a wrong move can have steep costs in terms of employee attrition, and companies typically take months of intense research and planning to ensure the move pays off.

For instance, when Montreal-based **CGI Group Inc.**, which provides information technology services, moved 15 Toronto-area operations into one location, picking the site required an extensive process of consulting with employees.

"Cost savings represented only one of the many factors that went into our decision," says George Della Rocca, vice-president of corporate real estate. "We took a holistic approach that took into account factors like cost, but more importantly how the move would impact on our people."

Companies usually have several goals when considering a site consolidation, says Doug Hitchcox, vice-president of the office leasing division at Cushman & Wakefield. They'd like to reduce their real estate costs, ensure they have the flexibility to expand or contract, improve the morale and productivity of their work force, encourage a distinct culture, ensure employee attrition is less than 1 per cent, and strengthen the company's public image, he says.

Locations outside a city core often offer cost savings, but can come at a cost if employees prefer working downtown, he says. "Keeping your staff is probably one of the most important things corporations need to do during a consolidation."

CGI hired Cushman & Wakefield LePage, which surveyed employees who would be affected by the move. The survey asked how people got to work, whether they made any stops on the way, where family members worked or studied, and how the move might affect them. Based largely on the results, CGI picked the town of Markham, Ont., just north of Toronto, for its new office.

Mr. Della Rocca says not one employee quit because of the consolidation.

Citigroup's Mr. Quinn says he does not anticipate losing any employees over the move to Mississauga.

"The initial feedback from our employees is that they're very excited about moving to much more modern facilities," he says. "And that's very important to us because, if we lose a lot of our employees, then the savings from the real estate won't really account for much."

In order to determine the costs and benefits of a relocation, Cushman & Wakefield's Ms. Cohen and Mr. Hitchcox suggest assembling a consolidation team to:

Find available land for the company to build on, or locate existing vacant buildings.

Research the public infrastructure and amenities in the area.

Evaluate the company's current space to identify what works and what doesn't, and survey employees to find out where they want to work.

Identify how the move will affect key employee groups, especially if there are job functions for which the company has a hard time recruiting.

Look at the cost of constructing a new building to the company's specifications compared with moving into an existing building.

Do a cost analysis that takes into account the impact on human resources.

Once a site is chosen, architects become involved in design considerations.

Phil King, president of **Orlando Corp.**, the Toronto-based developer and landlord behind the Citigroup project, says floor layout can greatly influence how well newly merged operations will work together. Open-concept spaces generally promote better communication between departments, he says. They also accommodate more people than layouts with many enclosed offices, he adds.

For a consolidation to make financial and strategic sense, it also needs to anticipate further growth, Mr. King says. In the case of Citigroup, the new complex can be expanded to accommodate another 100,000 square feet of office space. The surface parking lot can also be built up into multiple levels.

Mr. Quinn says Citigroup intends to grow in its soon-to-be-built Mississauga campus. For now, however, the company is focusing much of its energies on its upcoming move to the suburbs.

Doing the relocation math

Making the real estate consolidation decision involves balancing the likely savings with the human resources benefits as well as costs.

Human resources considerations: Access to an appropriate labour pool (for example, bilingual candidates) and sometimes lower wage scales.

Unplanned attrition: If an employee leaves because of the new location, the rule of thumb is that it costs the company 50 per cent of that person's salary. Estimate the number of employees that could be lost and multiply by 50 per cent of their salaries. The cost can outweigh the savings of a more economical location.

Expansion: Once salaries, employee attrition and loss of productivity are taken into account, a less convenient and less expensive location may be more costly in the end.

Densification: Many firms consider reducing their rentable square feet per full-time employee to further justify a relocation, but if the tighter space results in even a 1-per-cent attrition rate and 1-per-cent decline in productivity, it's generally considered too costly.