VOL. 17 NO. 43 – 10/26/2017

Mike Huaco, Global Head of Real Estate at McKesson, Discusses NextGen Facilities & Workplace Transformation

STAFF

Mike Huaco is the SVP of Corporate Real Estate at the McKesson Corporation, a Fortune 5 company that is one of the oldest and largest healthcare companies in the nation, with a substantial global presence. Mike's responsibilities include managing all aspects of the corporate real estate function, including transactions, project management, facilities management, workplace and strategy. He and his team manage a global footprint that includes over 30 million square feet in 3,000+ facilities.

RC: What are some of the highlights within your organization in the past 12 months?

Huaco: I came to McKesson three years ago, attracted by the opportunity to transform the real estate function and drive value through an enterprise approach. McKesson is one of the largest companies in the country that you may not have heard of. It is a healthcare services company that has grown in part through acquisitions and thus is somewhat decentralized. There was a great opportunity to develop more enterprise shared services, to drive cost reduction and improve the quality of the spaces we're in.

Strategically, we've developed and adopted a 'total cost of ownership' approach, leading to an entirely different set of solutions for the management of the portfolio. What that means is that we are now accountable for the full life cycle management of McKesson's real estate assets; our goal is to use real estate as the enabler of the business. We have a strategic relationship with our internal business partners to develop facility solutions that enable their business and driver greater shareholder value.

This end-to-end life cycle approach drives greater value, as a building can be a 30 to 40-year asset. The building phase is only 20% of an asset's total cost of ownership whereby the operations can be as much as 80% of the total cost of ownership. So obviously, we have had a greater focus on building operations, and technology. You can attempt to save money on the front end that will cost you significantly in the long run. There's way more money involved in building operations than anything else I do. The requirements of my role have changed. What I'm doing today is very different from what I would have been asked to do ten years ago—this role is not just about real estate management anymore.

That said, building operations and facilities management isn't just about keeping the lights on in the building and managing the financial aspect of it; it's also about creating an environment that helps attract and retain employees. To that end, we have adopted LEED and WELL certification standards for our office and industrial buildings, and some of the medical buildings. We made a decision to become the employer of choice in certain markets and to do that you should have the right facilities in the right locations. The first thing we did was develop a work force strategy, NOT a real estate strategy—that came later. We developed a comprehensive workforce study to inform us where to find the best talent for certain job functions—like accounting/finance, IT functions, or cybersecurity. We developed functional centers of excellence in these preferred markets around the country to source the appropriate talent. This resulted in a migration from multiple high labor cost locations to centralized centers of excellence or campus hubs. We just opened a large campus in Irving, Texas, with great fanfare by the governor. It is a smart building featuring the latest technology, and it will be one of the few

WELL certified buildings in Texas, if not the only one.

RC: What was the biggest challenge during this process?
Huaco: The biggest challenge has been centralizing of the facilities management function: maintenance, energy management, anything to do with touching a building. It has allowed us to have scale and have the right technical skills to manage very sophisticated buildings to optimal performance. We're not done yet; it's a journey.

The other challenge was change management relating to getting people out of offices. We've gone to a much more mobile work environment. Up to 50 percent of our space is unassigned in some cases. But that doesn't mean hoteling or work-from-home – that's an old technique. We're driving employees back to the office. The Wall Street Journal wrote about this trend, it's been happening in the industry for some time. The idea is that having your teammates in physical proximity breeds collaboration; collaboration drives engagement, which drives innovation. It's the informal nature of that work environment that leads to improved partnering and communications amongst your employees.

RC: Looking ahead, what will your focus be over the next 12 to 18 months?
Huaco: We're continuing the rollout of our campus hub projects. But the big thing we're working on now is standardizing smart building technology. Our focus has been on developing our owner's Performance Operating Requirements (POR). We have buildings full of technology that aren't optimized to their full capability. With the advent of sensor technology, we are now very selective as to what goes on the network. It's finding the right balance to create an operationally efficient smart building, and to run it from an automated perspective.

This POR spec is for all buildings going forward. We have four types: office, industrial, medical, and retail. It will tell us what type of lights we want, if the lighting system is networked to the BMS system, building maintenance management, everything. We do remote monitoring via a dashboard, so somebody doesn't need to physically be in the building. If something is out of tolerance for whatever reason, we'll get the notification and we can adjust the equipment virtually. We call it management by exception.

Another area we're working on is workplace technology. We're working with our IT department to use technology more as a service. We have a standard now that we provision new office buildings with conferencing systems, follow me printing, soft phones, real time reservations systems for office space, robust network access, and diagnostic meeting input so you can bring any device into our buildings and they will work. We are making the buildings very flexible using mobility to increase operational efficiency.

RC: What trends do you see impacting the future of our industry?
Huaco: IoT - The Internet of Things. A good example of this is our implementation of energy efficient lighting, with occupancy sensing technology and lighting control systems tied to our sustainability network. This not only reduces energy costs, but has the additional benefit of occupancy sensoring so we now know how the space is being used. We are able to monitor utilization in real time.

The big thing for us going into the future is doing a lot more in preventive maintenance and predictive analytics. If you can predict something is going to fail before it fails, the benefit is huge in terms of maintaining greater uptime of facilities and reducing business disruption. Having ubiquitous technology that's easy to use is vital; and I emphasize the word easy, as the data it produces should be actionable by a layman and not necessarily an engineer. For us it's extremely important, because some of our facilities, especially healthcare, run 24 hours a day. Uptime is paramount. The risk to the business is too great not to have buildings running at optimal performance. Anything we can do to lower our costs and mitigate our risk on those buildings through technology pays huge dividends.

As we move forward, I see the bigger role of corporate real estate as a driver of change for the business: I'm an enabler of change. Our group is leveraging facilities and buildings to drive change, not only to be much more efficient, but to create an environment that drives greater collaboration and drives cultural change.