



IREM® From the Front Lines Podcast

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Episode 6.1

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How Evaluating Spend Data Can Boost NOI in Commercial Real Estate

Erin:

Welcome to another edition of From the Front Lines, where we discuss both the day-to-day, and one-of-a-kind issues facing real estate managers. In this episode, we talk to Maura Wilson from IREM Industry Partner OMNIA Partners about the importance of spend visibility and how spend data can benefit companies in commercial real estate. Welcome to the podcast, Maura.

Maura:

Hello, happy to be here.

Erin:

Can you first introduce yourself and OMNIA Partners?

Maura:

Absolutely. So, Maura Wilson, I'm a senior director in our real estate vertical at OMNIA Partners. I have a little over 12 years of experience with OMNIA and helping large organizations of all industries manage their spend, drive value to their organizations, find savings. OMNIA is the nation's largest non-healthcare group purchasing organization. And plain and simple, we just negotiate strong agreements with top-tier suppliers to bring savings to our members. We do this through leverage, strategic partnerships, and ongoing supplier management. And something that we have invested in in the last few years is spend data and spend visibility. We saw a huge opportunity to bring value to our members by creating a team within our analytics group that is dedicated to doing this all day. And basically the goal is to take our members' spend, a GL, general ledger dump of data and categorize it, reconcile it, and return it back to the company in a way that they can use that spend data, their own spend data, to make better purchasing decisions and get that spend under management.

Erin:

How does spend visibility help procurement teams align with a company's overarching strategic goals?

Maura:

So this can go in so many directions, but you know, thinking under the veil of real estate. I think one of the first ones is a company in a real estate environment, a big goal is NOI (net operating income), so spend visibility is going to help drive up that NOI by identifying operational areas to cut costs. And we know that every managed asset is responsible for driving that NOI up. But do they have all the tools to achieve that? Additionally, you're going to have operational goals at that property, right? So how are you managing spend to drive efficiencies? If you're a property manager,

a buyer, a facility manager, and you are spending a lot of time shopping, vetting suppliers, getting deals together, you're paying across different platforms, going to different sites, are you truly able to focus on your strategic operational goals within the organization? And then, finally, resource alignment. I think that we are probably all sick of hearing we have to do more with less. Spend visibility is going to really help remove some of the day-to-day resource constraints on understanding where are you spending, how are you spending? Deep dive spend analysis is really going to help drive. I think those are some three main tenets to help your company reach some larger, loftier goals.

Erin:

What are some risks that spend visibility helps procurement teams identify?

Maura:

I would say the biggest one is supplier risk. How many suppliers are you utilizing that have not been vetted? So when I work with members of OMNIA, I've worked with all sizes, Fortune 500, etc., and I watched these organizations' procurement and legal together spend so much time vetting suppliers, thinking of COI's, T's and C's, indemnity, warranty, all of that. And then they look at where their spend is and there's no agreement or oversight. What suppliers are you using? Are these strong suppliers? Are there risks associated with that and is a spend visibility into that data is going to uncover where that risk lies? Next, you have contract compliance. So within the group purchasing world, we tried to limit the risk around contract compliance, where you don't have a lot of spend commitments or minimums, but when you're out there, negotiating with suppliers and you put a program together. That's going to come with spend commitments. If your rogue spend is cannibalizing off your negotiated agreements, you can be at risk contractually. That increase in prices, clawback language, and sometimes cancellation of an agreement. So a spend visibility tool is going to help you see, do I have too much rogue spend that are putting my negotiated agreements at risk. And then finally, the categories where there are no agreements in place, you know, procurement tends to spend a lot of time on high spend categories, high visibility, high risk categories. But if you aren't looking closely at the line-item data of your spend, you may be missing sizeable areas, and my big example. I work with a member with over 100 properties. And we did a spend analysis for them. 97 landscaping suppliers. 97! And that is a contract that is typically negotiated annually. So you have property managers at each property going out and spending time and effort to negotiate a new contract every year. So that was wow, an eye opener for that organization.

Erin:

What are the biggest challenges organizations face when trying to ensure their procurement data is clean, accurate, and usable for strategic planning?

Maura:

I'm going to keep going back to the resource constraint. Who's owning that process? Is it accounting? If it's accounting, do they know how to correctly categorize the spend? Are they in the weeds on the type of suppliers that are being used? What are they doing? And then, if you're going to say no, we're going to send it back to the field. Well, property managers really only have a view into their properties' spend. Okay, let's bring it back to procurement. Wow, our procurement teams have been very lean these days, so it's just having not only the right expertise to take spend and work with it, but the time. Then you have the point of truth. So where is this spend coming from? You know, if you're trying to uncover where, the what, with who, the how much, and if you have property managers, procurement teams buying from all

different suppliers on different platforms. Maybe they're even walking into a Costco. I've heard that many times. You're not really seeing all the layers of spend that are running through your company. And then you know, it's going to be that rogue spend. So if you're only paying attention to spend coming through agreements and supplier relationships that you're aware of, you're likely missing that rogue spend. And that goes back to that earlier risk component of, you don't know who that supplier is and you are probably cannibalizing off a better negotiated program.

Erin:

What is the value of performing a full spend analysis with a third party?

Maura:

So kind of tagging off the last one, it's going to be the resource constraint, because it does spend time cleaning that data and reconciling that data. One of my favorite examples is FedEx. FedEx can sit on a GL with three different names. They could be FedEx, USA Federal Express, all of that. So those are the nuances that you might not be looking for if it's a procurement person. But then a county person might not know the nuances of what every supplier actually does, but it's going to come back to time constraint as well because the data, it has a life shelf, right? So if you're not looking at it closely and investing that time and really putting time into that project, it's not going to bring as much value back to the organization. So, you know, at OMNIA, our teams, they do this day in and day out. They take about a month, so why not offload it to someone who has expertise, so you can stay hyper focused on your strategic initiatives?

Erin:

How does evaluating spend data boost NOI in commercial real estate?

Maura:

So there's a couple things. You know, when we're talking procurements, the obvious way to boost the NOI is going to be reducing spend, which is really the goal of procurement anyway. You're trying to find savings wherever you can, something in this current economic environment that is harder and harder to do. But the problem is, without accurate spend, you don't have a baseline to capture the cost-cutting measurements when you're calculating the NOI. So once you have the spend data and you begin to slice and dice it and really evaluate it, now you're going to develop what we call waves of opportunity that are quickly going to become evident. You can have the low-hanging fruit, you know, supplier consolidation, moving existing suppliers onto a more aggressive program, maybe through a group purchasing organization, and then you are going to have those more strategic, longer life cycle opportunities that tend to have the biggest ROI. But now you really have a road map of how you're going to attack those categories of spend. And you can put the timeline in place. And now you're going to deliver back to your leadership hard data, hard numbers. This is where we were. We had X amount of spend in this category across Y number of suppliers and we have reduced that and you're going to be able to put it in black and white. The second one I think is more fun. And it's something I'm seeing a lot in the commercial real estate space, and that is finding revenue creation from procurement, not just cost savings. So the more you can spend with a supplier, the more leverage you are bringing to the negotiating table. The more you can find that revenue creation or even revenue sharing opportunities, so this can be, rebates, you can start to build rebates in. And you're getting a nice check at the end of the year. That can go back into that property, but also we're starting to see with that leverage spend that taking it to a new level, where maybe you're partnering with that supplier to bring programs to your tenants and now you're bringing revenue sharing opportunities, but it can't be a guessing game with spend if you are going to go to the suppliers and negotiate this partner with them and bring those revenue

creations to life, you have to have the spend to back it up and if you don't know what those numbers are, it's almost impossible. So having that line item spend visibility, you know exactly what you're playing with. That's where you're going to really help drive that NOI.

Erin:

What are some of the other key benefits of achieving spend visibility that procurement teams should be aware of?

Maura:

Oh my gosh, I have found this, that if you've been with the largest of organizations, you're going to start to leverage your own spend. So here at OMNIA Partners, we're leveraging spend across our membership all the time. We're not always going to be a fit, but are you going to the negotiating table with all your leverage spend? Do you know what that number is? Because if you think it's one million, and then you do a whole spend data analysis, and you uncover that actually it's one and a half million, that is going to potentially drastically change your ability to negotiate with your suppliers. And in the real estate world, it's so many locations you're spread across, you're in so many different markets, and these can be missing pieces that are going to keep you from maybe better pricing. The rebates we talked about: account support, SLA, all of that. So leverage is key and if you do not know your leverage, you do not know your spend. You know, we talked about risk avoidance. Obviously, we talked about the opportunity to wave plan and drive that NOI. And I think another thing to look at, specifically in this industry, is there's turnover and that can be very frustrating at a property level because you know you have a new resource coming in. And sometimes they're starting from scratch because the last person was out negotiating their own deals, maybe utilizing some of the essentially negotiated agreements, but with the spend visibility tool, you can almost start to create a playbook for each property. And that's going to give you oversight on spend, supplier utilization, risk mitigation, and property managers are going to become so armed with the tools so they do not have to invest the time themselves to go out to negotiate get programs in place. And you know, spend visibility, they are going to write that blueprint for you. So it's going to drive resource efficiency, operational efficiency and then again back to you know, the buzzword, it's going to drive up that NOI. It's going to take a lot of the guessing out for your teams, whether it's central procurement, the boots on the ground at the properties, whatever it may be. It seems like, wow, this is a lot of work. But once you have it and you've done it and you have the results, these things all start to fall into place. It's a really slick way to start approaching your procurement needs.

Erin:

Thanks for joining us, Maura.

Maura:

You're welcome. It was great to be here.

Erin:

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