



Outsourcing

By: Michael ("Mickey") M. McClune, RPA®, FMA®

ENHANCE YOUR COMPANY'S BOTTOM LINE THROUGH EFFECTIVE COST CONTAINMENT STRATEGIES

The one constant in the business world is change. The very forces that drive the world's economy create pressure on companies to continually change the way they do business in order to increase efficiency, decrease costs, and improve performance – in short, to survive, not to mention prosper.

Successful firms are experts in developing, manufacturing, and marketing their "core" business products – whether they are computers, widgets, or some service. As the primary reason for the firms' existence, these "core" business products are constantly being scrutinized to improve their manufacturing and delivery processes and cost control measures.

The one area that these same firms are not experts in and have only recently correctly begun focusing on, however, is the rest of their businesses' operations – their "non-core" business functions such as training, accounts payable, human relations, real estate, information technology, telecommunications, healthcare management, etc. As a result, Corporate America has been and to some degree is still needlessly throwing away tremendous amounts of operating funds that could be better utilized to significantly enhance its bottom line earnings per share, thus tremendously depressing its shareholder value. Examples of such common misspending include: paying incorrect real estate lease rent payments, including wrong Base Rent and "Other Charges" amounts as well as incorrectly computed CAM/OE Escalations and CPI Adjustments; paying excessive property taxes; paying charges that they are not obligated to pay such as telephone charges that they did not incur and/or telephone rates that they did not contract for;

contracting and paying for inadequate yet costly health-care benefits and 401K plans for their employees; and paying excessive amounts for business supplies and equipment. The list, of course, goes on and on.

All companies, whether they are the large international conglomerate or the small property management firm, can measurably improve their financial results and earnings per share by intelligently focusing on their non-core business functions. More specifically, while Corporate America firms should continue to scrutinize and improve their "core" business products themselves, smart firms have been also realizing the tremendous benefits to their bottom line by hiring outside experts to focus on their "non-core" business functions. The result? An immediate, cost effective increase in the efficiency, productivity and cost performance of these other functions, and, of course, an immediate enhancement to the firm's overall bottom line.

Real estate owners have long realized the need for and benefits of using outsourced service providers to enhance the financial performance of their real estate assets. As experts in the business of owning real estate (their "core" business function), they hire property management and leasing firms for their expertise in managing, leasing and selling their real estate assets (some of the "non-core" business functions of real estate owners). Property management firms, serving as the integrator of professional management services for a property, then in turn outsource the more technical functions of that particular line of business to other firms whose own core business lines are the particular functions needed - window washing, building maintenance, landscaping, nightly janitorial services, real estate tax reduction services, elevator maintenance, etc.

Since the pressures of improving their earnings per share

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are constant and paramount, all of Corporate America needs to utilize a similar ongoing, integrated process involving outsourcing non-core business functions rather than a divergent set of sometimes in-house, but usually non-existent, processes. Improving financial results from the expense side of the ledger requires a systematic view that includes looking backward to recover misspent profits and looking forward to reduce costs. Smart companies do this by outsourcing their non-core business function work to firms whose own "core" business is the provision of and, as importantly, the integration of those non-core business functions.

By outsourcing work on their non-core business functions in order to produce greater efficiencies and substantial cost recoveries and future savings than they could ever hope to achieve themselves, Corporate America can thereby truly, and correctly, focus on their primary mission and enhance their bottom line from both core and non-core areas. By doing so, they will discover that their business costs will actually decrease since outsourced functions are almost always provided cheaper than doing the same functions in-house. Furthermore, many times these outsourced services can sometimes even be "funded" with potentially no additional capital outlay because funding at times can actually come from the various forms of cost savings the outsourced work itself produces - largely through contingent and pay-for-performance fees.

And the "bottom line" of all of this? The increased efficiencies, reduced costs, and monetary recoveries of past overpayments and future savings realized from outsourcing can be used to increase the firm's earnings per share, fund additional core services and products, and provide ongoing, long-term improvements in the performance of the organization and its people. In short, the "bottom line" will be a greatly enhanced bottom line.



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Michael M. McClune, RPA®, FMA®, is the President and Managing Principal of MKC Asset Management, Inc., a Long Beach-based commercial real estate property management firm. With over 25 years in the commercial real estate industry, and also as the former Chairman of the Board of BOMA of Greater Los Angeles, and Board Member of BOMA Orange County, BOMA California, and BOMA International, he has an in-depth knowledge of commercial real estate industry practices. He frequently consults for various well-known landlord and tenant entities, assisting them in property acquisition due diligence, property management, operating expense escalations, lease abstracting, and lease administration.

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Mickey McClune is the President, Broker, and the Managing Principal of MKC Asset Management, Inc., a Long Beach-based commercial real estate property management firm. As President, Broker, and Managing Principal, Mickey is responsible for all activities of the firm, including new business acquisition, oversight of all property management activities, and the performance of all of the firm's commercial real estate consulting services. He is an experienced commercial real estate property management, asset management, and leasing specialist with an extensive institutional owner and corporate user background.

Mickey began his career in commercial real estate in the early 1980's with the preeminent national real estate firm, LaSalle Partners (now Jones Lang LaSalle), as its General Manager for all of the office and industrial properties that it had acquired in the Los Angeles and Ventura County areas, and as its Asset Manager for various client portfolios in the Western U.S. While at LaSalle, he was recognized for numerous accomplishments both by the company and the commercial real estate industry. In 1993, he left LaSalle to form his own property management company, New America Asset Management Services, where he was the President and the senior partner of this Long Beach-based commercial real estate property management firm. In late 1997, LaSalle acquired NAAMS and its two million square foot management portfolio, and Mickey then served as LaSalle's Regional Vice President for the Southwestern U.S. In 1999, he joined EPS Solutions, a national corporate services consulting firm, as a Director of Real Estate Services. While at EPS Solutions he assisted property owners with their property acquisition due diligences, their properties' annual Operating Expense Escalations, and with the abstracting of their tenant leases, and he assisted tenants by performing over 50 CAM/OE Escalation Audits for them of their landlords' billed rent charges. In 2001, he again formed another commercial real estate property management firm,

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MKC Management Services, where he served as CEO and senior partner. Soon thereafter, MKC merged with New York City based Newmark & Company Real Estate and became its California-based Asset Management Group. In mid-2003, Mickey was instrumental in merging Newmark & Company's California-based Asset Management Group's operations into a new start-up entity that then became known as RiverRock Real Estate Group. At RiverRock, Mickey was its Senior Managing Director, where he established all of the firm's property management systems, oversaw selected property management teams, and was responsible for all of the firm's consulting business. In early 2006, Mickey left RiverRock to start MKC Asset Management.

Over the course of his 25+ year career in commercial real estate property management, Mickey has personally managed and leased well over 18 million square feet of commercial office, industrial, and retail space, abstracted over 5,000 leases, performed over 400 annual CAM/OE Escalations for landlords' buildings, saved clients well over \$4 million in cash savings, received four (4) "Management Excellence Awards" from LaSalle Partners, was a LaSalle Partners' "Manager of the Year", and was awarded by BOMA of Greater Los Angeles four (4) "Building of the Year Awards" (in "100,000-250,000 SF" and "Over 500,000 SF" categories) and two (2) "Special Achievement Awards" including one for "Overall Design Improvement".

Prior to entering the real estate industry, Mickey was commissioned as an officer in the United States Air Force and spent 11 years in the USAF and private industry with Hughes Aircraft Company specializing in the business management of major aerospace industry programs.

Mickey has a California Real Estate Broker License, and is RPA and FMA certified by the Building Owners and Managers Institute. He is a past Chairman of the Board and past member of the Executive Committee and Board of Directors of BOMA of Greater Los Angeles, has served on BOMA Orange County's and BOMA California's Executive Committees and Boards of Directors, and on BOMA International's Board of Governors and Strategic Planning Task Force. Mickey graduated from the University of Southern California with a Bachelor of Science degree in Civil Engineering and a Master of Business Administration (MBA) degree.