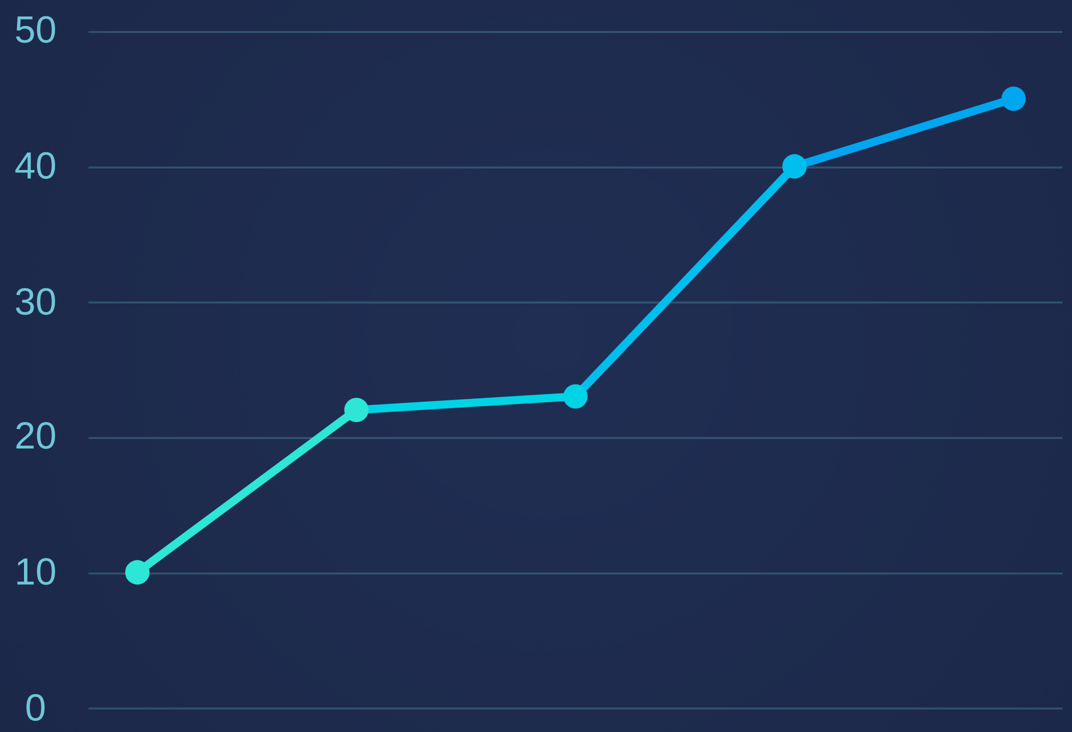
THE KEY METRICS

FOR WORKSPACE SUCCESS



THE IMPORTANCE OF REPORTING, SPACE OCCUPANCY DYNAMICS & OTHER METRICS VITAL TO SUSTAIN, GROW & PREDICT THE FUTURE OF YOUR WORKSPACE BUSINESS

KEY METRICS FOR WORKSPACE SUCCESS

INTRODUCTION

Opening a shared workspace can be a smart venture in today's market. More and more SMB and enterprise companies are embracing flexible and Coworking spaces as the number of startups, freelancers and remote workers continue to consume space-as-a-service products. With the growing real estate footprint of shared office space comes new market competitors such as commercial real estate giants, property management companies, and hobbyist coworkers.

While more operators enter the market and competition heats up, what does this mean for existing operators and seasoned players? They must compete harder than ever before and keep a sharp eye on core business metrics that determine their success. Here we outline the importance of reporting, space occupancy dynamics and other metrics that are vital to sustain, grow and predict the future of their business.

This ebook does not intend to be a definitive set of rules on how to run your space, rather, a set of guidelines based on our extensive research with customers and the wider market and the experience in the shared office and workspace industry.

KEY METRICS FOR WORKSPACE SUCCESS

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KEY METRICS FOR WORKSPACE SUCCESS

REPORTING

The bulk of flexible workspace reporting is based on the origin of revenue streams, namely two: license fees or memberships and services. License fees and memberships are the recurring rental income from tenants or members, renewals or expansions. This recurring revenue is a solid baseline from which you can then determine your profitability beyond a certain occupancy percentage. A good benchmark for success is when monthly rent constitutes 80% of your total workspace revenue.

TOTAL REVENUE = RECURRING REVENUE + SERVICES

RECURRING REVENUE = LICENSE FEES + MEMBERSHIPS

The remaining 20% of revenue comes from services, typically consisting of meeting or conference room bookings, IT and telecoms services, events, beverages, food services, postage and an extensive list of various others.

SERVICES REVENUE = MEETING ROOMS + IT SERVICES + EVENTS + COFFEE/SNACKS + ETC.

The primary driver of your revenue, therefore, is your space occupancy. Before you categorize the different revenue streams your workspace brings in, make sure you understand how to determine the value of your space.

THE VALUE OF SPACE

Space is the one constant within this ever-evolving and growing market. As a rule of thumb, especially for new or aspiring operators, you must fit out your space to optimize what UK operators refer to as Net Internal Area (NIA), and US players refer to as Rentable Square Footage (RSF). Measure space meticulously, being consistent about including or not including corridors, meeting rooms or common areas, thus ensuring accuracy when calculating conversion rates in your reports. The quantity of square footage will be what you base your revenue calculations upon.

KEY METRICS FOR WORKSPACE SUCCESS

OCCUPANCY RATE

The primary revenue driving force for your workspace is occupancy rate and it can be evaluated by space and by workstation.

1. OCCUPANCY RATE BY SPACE

$$\text{OCCUPANCY RATE} = \frac{\text{OCCUPIED SQ. FT.}}{\text{UNOCCUPIED SQ. FT.}} \times 100$$

Space occupancy rate is a percentage calculated by dividing occupied square footage by unoccupied square footage (RSF or NIA), multiplied by 100.

Rigorously tracking occupancy means calculating space occupied per square foot over multiple time periods. For example, run your occupancy reports on a monthly, quarterly or yearly basis, conducting frequent spot checks in between to evaluate and adjust your business priorities as necessary.

It's key to remember that there isn't an exact occupancy percentage that will determine profitability for operators across the board. Every model and workspace are different, so it will ultimately depend on how your RSF space is distributed across common areas, hallways, private offices and Coworking space. However, in our 16 plus years of experience working closely with operators, developing workspace management tools and running centers, we've found that most operators are profitable at an occupancy of between 80 and 85%.

2. OCCUPANCY RATE BY WORKSTATION

$$\text{WORKSTATION OCCUPANCY} = \frac{\text{OCCUPIED WORKSTATIONS}}{\text{UNOCCUPIED WORKSTATIONS}} \times 100$$

Workstation occupancy rate is a percentage calculated by dividing the number of occupied workstations by the number of available workstations.

This is much more challenging since desk configurations and usage are constantly changing. Having software in place that tightly integrates your booking system, inventory and reporting capabilities can facilitate these calculations for a 360-degree view on business performance based on occupancy.

In terms of revenue generation by workstation, there are two key metrics by which you can evaluate business performance: REVPOW (Revenue per Occupied Workstation) and REVPAW (Revenue per Available Workstation).

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A. REVPOW (Revenue Per Occupied Workspace)

$$\text{REVPOW} = \frac{\text{TOTAL REVENUE}}{\text{OCCUPIED WORKSTATIONS}}$$

This is the total amount of revenue generated from each occupied workstation and is generally a weighted average over the year.

B. REVPAW (Revenue Per Available Workspace)

$$\text{REVPAW} = \frac{\text{TOTAL REVENUE}}{\text{AVAILABLE WORKSTATIONS}}$$

This is the amount of revenue generated from the total number of workstations listed across your center (or centers). Operators must be sure to update their inventory for accurate calculations and, of course, bill for each workstation being utilized.

REVPOW and REVPAW are key metrics historically used by large operators such as Regus and operators previously acquired by Regus. They are calculated on a monthly basis and are key indicators of overall performance across your business.

Another number to consider when working with a budget model is the amount you want to make from the building to get a return on the overall capital you've invested. Calculating this requires measuring occupancy, site performance, and forecasted revenue over time.

3. BREAK-EVEN

$$\text{BREAK-EVEN} = \text{TOTAL MONTHLY REVENUE} - \left(\text{MONTHLY RENT} + \text{OVERHEAD}\right)$$

Operators should calculate the occupancy percentage needed to break-even each month after covering monthly costs. Knowing this number, you can work towards your minimum goal.

KEY METRICS FOR WORKSPACE SUCCESS

4. PROFITABILITY

$$\text{PROFITABILITY} = \left[\left(\begin{matrix}\text{TOTAL}\\ \text{CAPEX}\end{matrix}\right) + \begin{matrix}\text{BREAK}\\ \text{EVEN}\end{matrix} + \begin{matrix}\text{REVENUE}\\ \text{OVER TIME}\end{matrix}\right] > 0$$

The amount an operator aims to generate from the workspace or building lease for a total return on capital invested. It's easy to get lost in the day to day or month to month, just making your rent payments. However, not losing sight of this number is key to profitability.

5. RATE PER SQUARE FOOT

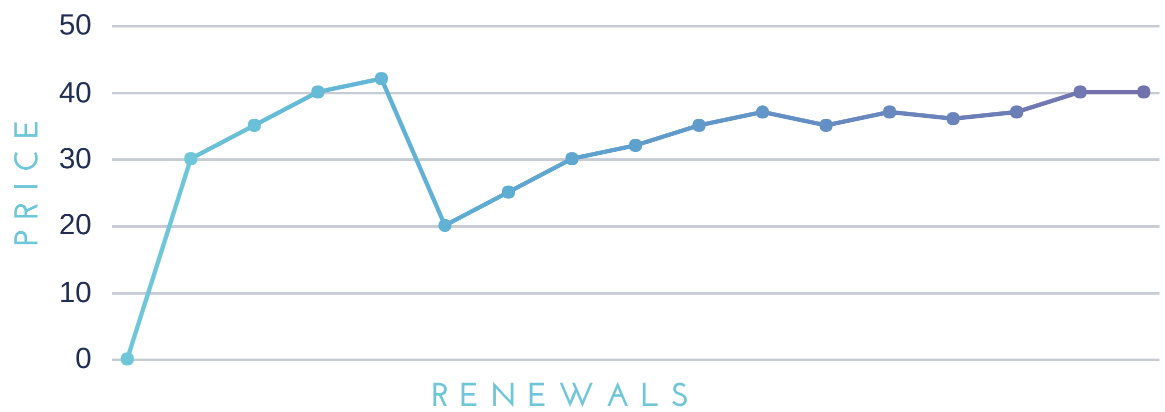
Once the break-even and profitability numbers are known, an operator can then determine at what price per square foot they should be renting the space. Grading your workspace against certain parameters will also help to stay competitive within your local region and market. Additional factors that impact how to price your workspace can be found in Chapter III of our whitepaper, The Complete Guide to Growing Your Flexible Workspace Business.

6. FORECASTED CONTRACT REVENUE

Run a quarterly forecast of your revenue based on contract start and end dates (or calculate workstation count occupancy) to project your business success over the upcoming periods. You should always know where your business will stand in three, six or nine months time. Your forecast will give you an idea of revenue to allocate to rent, improvements around your workspace or sales and marketing initiatives, and will serve as a benchmark to meet and, ideally, exceed.

7. RENEWAL RATES

Track how your renewal rates are fluctuating. If they are increasing (or decreasing) over time, it may speak to a more significant trend of your overall workspace rental prices and the need to take a deeper look at how the market is impacting pricing and your overall customer base. While you're at it, it's worth reporting the lifetime customer value of the customers in your workspace (Part III of this eBook). Perhaps it's cheaper for you to reduce the price of a lease renewal than it is to win a new customer logo, especially if your cost per acquisition is high.



8. CURRENT AND HISTORICAL RATE

Measure the current month's total rate per square foot and historical rate over time so you can consistently compare business performance over time. More granular reporting will give insight into recent deals to determine if they are equal to or greater than deals made last month so you can adjust business decisions if needed.

SCRUTINIZE YOUR DATA

Successfully operating a shared workspace requires constant scrutiny of your entire real estate and business profile over time. Comparing your square footage and occupancy against actual performance gives you benchmarks for accountability and profitability. Neglecting the metrics and operating as you go may be acceptable when the market is performing well, but when it dips, you could find yourself in trouble. Metrics are a beacon that guides operators towards the future.

Data attained from your workspace management software can be used to estimate revenue goals, track real-time occupancy trends and help operators hold their staff accountable for performance. It seems obvious to say, but visualizing your data in graphs and tables and reviewing it on a regular basis will guarantee a consistent bird's eye view of how your business center, Coworking site or overall portfolio is running.

ADDITIONAL SERVICES

Operators must track supplementary services revenue to understand growth or diminution beyond the monthly recurring rent. This number should account for a total of 20% of total revenue, half of which should originate from meeting room revenue. The measure of supplementary services can serve as an indicator of how well your team is performing; if they are creating stickiness with your members and keeping them coming back to your workspace, your services revenue can quickly increase. Once you reach a maximum occupancy, extending additional services is an organic way of increasing wallet share and new revenue streams from customers already in your space. Most tenants will find it easier and more convenient to purchase all of their business needs from a single provider, through a single relationship and invoice.

Providing additional services can be a tricky business, especially when the barebones management of a workspace is the top priority. Nonetheless, dedicating time and effort to upsell, cross-sell and offer more services is essential to driving revenue streams beyond space occupancy. You may be able to extend services with resources you already have that require no additional overhead. Add-on services have potential to become a cash cow, but you must track them diligently. Here's what you should be measuring:

1. MEETING ROOM USAGE AND REVENUE

A. Meeting Room Usage by Resident vs. Non-Resident Users
Reporting on who is using your services and how much they are consuming will allow you to target customers and upsell your services. For example, a non-resident client who uses the same meeting room at the same time could potentially be converted into a resident client.

B. Meeting Room Occupancy
Determine available hours versus actual occupancy of your meeting rooms on a day-to-day or month-to-month basis. Have a historical view of this data and establish KPIs for each room. If you run a multi-site operation, establish KPIs for each location. Meeting Room Occupancy metrics can also provide you with insight into market competitiveness. Should you have a site with a greater demand for meeting rooms, it may be more profitable delivering only flexible meeting rooms, or perhaps there is an opportunity to expand to new sites in the same vicinity.

C. Ratio of Available Hours to Booked Hours
If meeting rooms are returning low usage rates, it may be worthwhile to convert them into private offices. Alternatively, if meeting room occupancy is high, consider turning common space or private offices into meeting rooms. The main takeaway here is to manage your workspace in such a way that it is flexible enough to accommodate the fluctuating demands of your members and the market.

KEY METRICS FOR WORKSPACE SUCCESS

2. VIRTUAL SERVICES

With virtual clients, the trick is to track the services they purchase beyond the traditional virtually-consumed services.

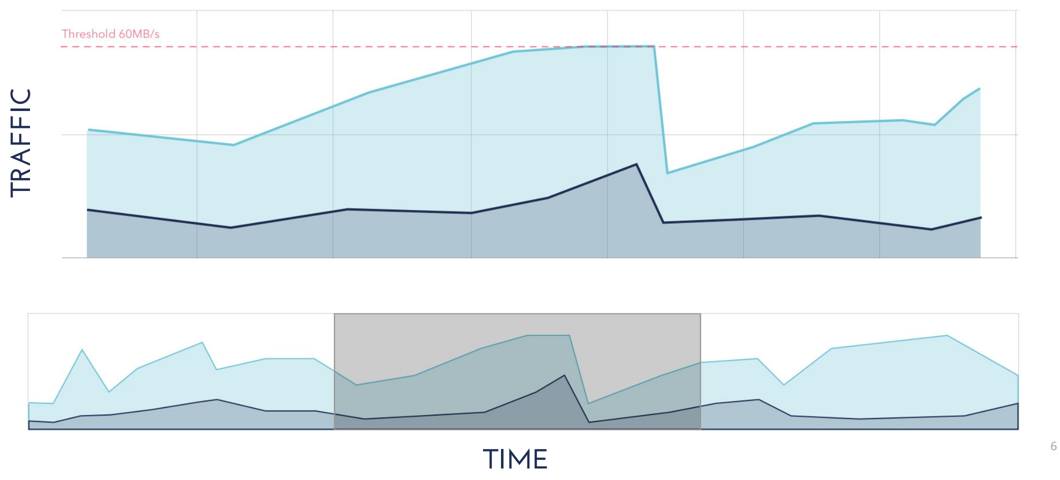
A. Virtual Yield per Customer
Here you need to determine the revenue that each of your virtual customers is generating. Across the board, analyze what services each of your virtual customers consuming, such as mail forwarding, meeting rooms or call answering services, just to name a few. You may have the opportunity to up or cross-sell additional services to them. For example, offering a private office to a virtual customer who has been repeatedly visiting your center to use the same meeting room.

3. IT SERVICES

Operators who extend upsell and cross-sell opportunities on their platform can measure the performance of additional services such as:

A. Billed vs. Consumed Services
Operators must gauge the cost of services consumed against the amount charged for those services to ensure they are getting an appropriate return on their investment.

B. Network Traffic
Knowing which tenants are consuming the most bandwidth lends the ability to offer tiered service packages and appropriate them a higher bandwidth package at an additional cost.



C. Revenue from Service Enhancements
Does your IT provider offer advanced phone features or configurations, tiered Wi-Fi options, wired Internet or video conferencing? Additional features and services can be a key revenue driver in any shared workspace. Partnering with an industry expert that can extend advanced capabilities puts you at a competitive advantage in the marketplace. Any revenue from advanced features and service enhancements should be categorized and tracked by which members or companies are consuming them.

KEY METRICS FOR WORKSPACE SUCCESS

SALES & MARKETING METRICS

Measuring existing business is vital, but operators must also prioritize generating future deal flow, pipeline and closed opportunities to understand where they must focus their efforts to increase occupancy rates. It's essential to understand the metrics around what it costs to acquire a member or what their value is to your organization over time.

Putting a dollar sign over every members' head may seem wrong, for some even sinister. Yes - establishing a community of collaborative members and delivering more than a workspace is important - especially to create a pleasant vibe and deliver a positive member experience. But, at the end of the day, you're running a business that must be profitable in order to sustain itself in the hopes of growing.

Ultimately it's about knowing where you're dedicating your marketing dollars and the return you get on that spend. It starts with your sales pipeline, through to leads and tours, and on to in-life customer spend. Below we outline what your baseline metrics should be

1. LEAD FLOW AND CHANNEL ATTRIBUTION

Measuring organic leads versus referrals versus brokers will tell you which marketing channel is proving most successful for leads that convert to sales. Is Google AdWords? Member referrals? Facebook advertising? Tracking your most effective channel and attributing converted sales is a reliable metric will help to determine where you allocate your marketing budget.

2. LEAD COST PER ACQUISITION

While it’s vital to know where your best leads and sales come from, it’s just as important to know how much you’re spending to capture new business. While your cost per acquisition (CPA) can vary, the best starting point is to take your total revenue over a time period, monthly, quarterly or annually, and divide it by the number of customers in that same period. This will give you an idea of how much each customer is worth and just how much you’re willing to spend to acquire a customer.

$$\text{REVENUE PER CUSTOMER} = \frac{\text{YEARLY REVENUE}}{\text{\# OF CUSTOMERS}}$$

More specifically, calculate your CPA by adding your total spend on marketing and sales initiatives in one period and then dividing by the number of new customers acquired in the same time period. Your CPA will show you what you’re spending to acquire new customers. The lower this metric, the better.

$$\text{COST PER ACQUISITION} = \frac{\text{(MARKETING + SALES SPEND)}}{\text{\# OF CUSTOMERS}}$$

KEY METRICS FOR WORKSPACE SUCCESS

3. CUSTOMER LIFETIME VALUE

Running a workspace is becoming more and more akin to the hospitality industry, causing many operators to take a more customer-centric approach to their business. Without a doubt, you're in a service industry and your focus is to deliver an optimal member experience. However, you also need to understand what the value of your customers is, specifically their value over time with your organization. Let's consider a monthly customer scenario:

CUSTOMER LIFETIME VALUE = (RECURRING MONTHLY SPEND + MONTHLY ADDITIONAL SERVICES SPEND) X AVERAGE # OF MONTHS IN YOUR SPACE

If you want to get down to the real nitty-gritty, you can calculate the lifetime value based on the margin you make from each customer after deducting overhead and real estate. Some take it a step further and deduct marketing spend and acquisition costs to bringing on new customers in the same period.

4. LEAD TO TOUR RATIO

Calculate your conversion ratio of raw leads to qualified leads to viewings to closed deals. Know where your leads are converting from and which channel to focus your budget.

RAW → QUALIFIED → VIEWINGS → CLOSED

5. CONVERSION RATE: INCOMING LEADS TO DEALS CLOSED

On a weekly and monthly basis, successful operators are tracking the number of leads that enter the pipeline and sales closed in comparison to the previous week or month. Track who on your team is closing the most deals, increasing sales and bringing in new customers. Tracking and analyzing these numbers help operators make substantial sales and staffing decisions that can contribute to generating revenue

KEY METRICS FOR WORKSPACE SUCCESS

6. TRACKING PROMOTIONS

If you're extending promotions on your services via third-party services, track the amount of incoming business from each source and make sure that all discount limitations are met. Assigning discount codes to all of your promotions, much like a campaign to your marketing efforts, makes it easier to track and demonstrate which promotions have the greatest success.

CUSTOMER METRICS

Aside from measuring your performance by occupancy, square footage and services, operators should also capture their customers' footprint throughout their workspace. From events attended and services consumed to retention rates. You may know your customers on a personal level, but you must also know how they interact with your workspace from a business perspective

1. CUSTOMER RETENTION RATE

Maintaining high occupancy levels is attained partly by generating new members but equally working to retain existing customers. Run frequent reports of contracts and renewal dates, be sure to know who is up for renewal and check-in with them well before their lease expires to prevent the risk of losing them.

2. AVERAGE LENGTH OF STAY PER CUSTOMER

Track customer departures over time and calculate the average duration of residence per customer. When customers leave your center, be sure to survey them before they move to understand why and to improve your operation or policies if needed.

3. PERCENTAGE OF CUSTOMER DEPARTURES PER YEAR

Measure this over time to have a current and historical view of what percentage of customers leave year over year.

4. ROI ON COMMUNITY EVENTS

$$\text{ROI} = \left[\text{EVENT COST} - \text{TICKET SALES REVENUE} \right] + \text{POTENTIAL PROSPECT VALUE}$$

If you're organizing daily, weekly or monthly events or classes for your members, measure the cost in time, money and effort spent compared to revenue from actual ticket sales. You may have a greater return on free events targeting prospects likely to convert to customers than turning a small profit from a members-only event.

KEY METRICS FOR WORKSPACE SUCCESS

FINANCIAL METRICS & REPORTING

Very often shared workspaces operate on a limited budget which means the center manager will end up wearing multiple hats and has few tools or resources at his or her disposal. When it comes to the finances, if you're not an experienced CFO, financial controller or bookkeeper, the task can become daunting. To make the job a bit easier, operators must seek automation, integration, real-time information, data integrity and tracking services and payments. These capabilities can be leveraged with a comprehensive workspace management platform.

While technology can certainly make your life easier, an operator must still know what metrics and reports they need at their fingertips to sustain and grow a profitable one business. However, as we touched upon in Part I, the financial aspect of a shared workspace goes beyond pure revenue generation. By nature of the flexibility of our industry and the dynamics of the business model, there are myriad of metrics to follow and reports to run to keep your center in tip-top financial shape.

1. CONTRACTED VS. ACTUAL REVENUE

Run reports of revenue that you or your sales team have contracted out in license agreements and membership fees and compare it against the actual revenue you're bringing in on a monthly basis. If the two numbers don't match, you're leaking revenue from somewhere. In these cases, check your discounts and make sure you're not giving the farm away. If your sales team are discounting your offices just to get them rented, you may be losing more revenue potential than if you hold out until the market improves or a prospect comes along who is willing to pay the full price value of the space.

2. AGED DEBTOR REPORTS

This report will give you a detailed view of the outstanding balance owed to you by customers and how far back their debt extends to. Ideally, your customers will always be paid up, but every now and then one or two may be overdue, and their debt may slip through the cracks. Knowing who owes you and exactly how much they owe you will help you to keep your members responsible. Be sure to set a limit to your grace periods to how long you're willing to wait for payment.

KEY METRICS FOR WORKSPACE SUCCESS

3. DEFERRED INCOME REPORTS

When you bill for rent in advance and services in arrears, deferred income reports will help to keep income aligned to products or services rendered during or after the current billing period. They are a huge time-saver for your bookkeeper because all of the billing is laid out, showing the income that needs to be posted in the current month, and the amount of income to be posted in future months.

Accounting gurus know that deferred income sits as a liability on the books until the delivery of a service, then it becomes revenue. Tracking and running frequent deferred income reports to see what money you've received for services not yet delivered will make life easier on you and your tax accountant. A global and accurate view of your tax liability is helpful when income is spread across multiple periods. Your reporting system should integrate with your financial system to track this in real time.

4. ACCOUNT DISCOUNTS

To accurately track account discounts, each promotion must be linked to a campaign or a code. Keep on top of your reports to see which services you discount frequently, for whom and how long. Establish clear parameters for your staff (or within your booking system) and be consistent about how many discounts can be used within a particular period (i.e. billing, monthly, quarterly, etc.) to avoid abuse by customers. When the same customers receive a discount for too long, you may need to evaluate whether it's worth allowing them to renew their license in your space. Operators should be charging full value of their space, especially when the market is up.

5. DEBT EXPOSURE REPORT

Exposure reports give operators a view to an aged debt of a client and compares the debt against the deposit being held. Seeing this value enables you to calculate whether or not you are holding enough deposit to cover your losses if the client were to default on payment. It also helps prioritize which debts to collect.

$$\boxed{\text{DEBT EXPOSURE} = \text{DEPOSIT} + \text{PAID RENT} + \left[\text{UNPAID RENT}\right] = 0}$$

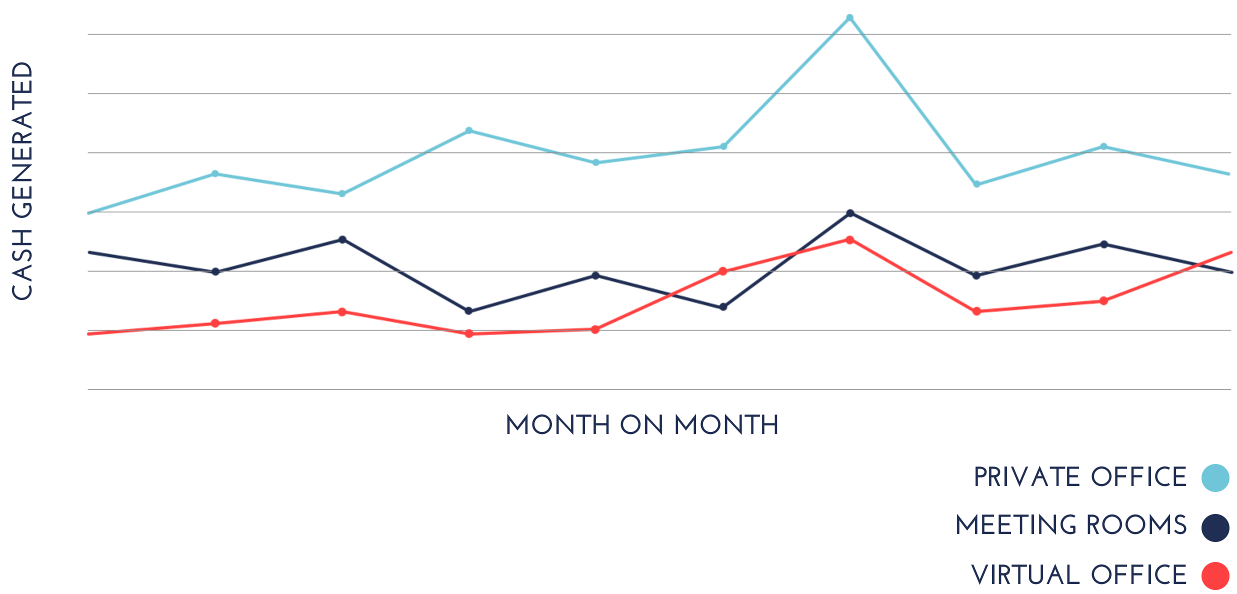
KEY METRICS FOR WORKSPACE SUCCESS

6. MONTHLY CLIENT BILLING

A key job of an operator is to know their tenants and members and encourage their inclusion in the community. Another aspect to nurturing your customer base is to be familiar with their monthly spend in your workspace. Doing a consistent spot-check every month will show you what you're billing your customers and give you an idea of who is spending the most or least amount of money with your business, and allow you to recognize any stark changes in billing activity. It could mean salvaging income from a customer who is consuming less services or catching and mitigating an issue that you might not have been made aware of otherwise.

7. PRODUCT GROUP ANALYSIS

Keep a keen eye on total spend from your various product groups. From private office tenants and meeting rooms to virtual and resident members, you must have a view of how your product offerings are performing over time. This will give you valuable insight about which products generate the most or least cash and could speak to repurposing a space during a particular time when it isn't performing well to maintain profit levels. From a bigger picture perspective, when you analyze your product groups over time, you may be encouraged to adjust your offering longer term to drive more income.



KEY METRICS FOR WORKSPACE SUCCESS

SUMMARY

This is a non-exhaustive summary of metrics and KPIs that workspace operators should keep their eye on. Executing business decisions based on information from data and numbers will guide you to perform better, retain more customers, safeguard your business from a constantly fluctuating commercial real estate market and help you allocate your budget more intelligently.

Collecting data doesn’t need to be a headache, nor should it be. Investing in a comprehensive software platform that not only performs daily administrative tasks, but also underpins the core levels of your business – sales and marketing, operations, finance – enables you to run your workspace with confidence and project your success into the future.

Easy reporting on both the 360-degree view of your operation and the granular, nitty-gritty numbers otherwise difficult to calculate, help operators to make intelligent business decisions that result in slick-running and profitable shared workspaces.

Future-proof your workspace

essensys provides scalable, purpose-built workspace software for the world's largest community of tech-driven workspace operators.

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