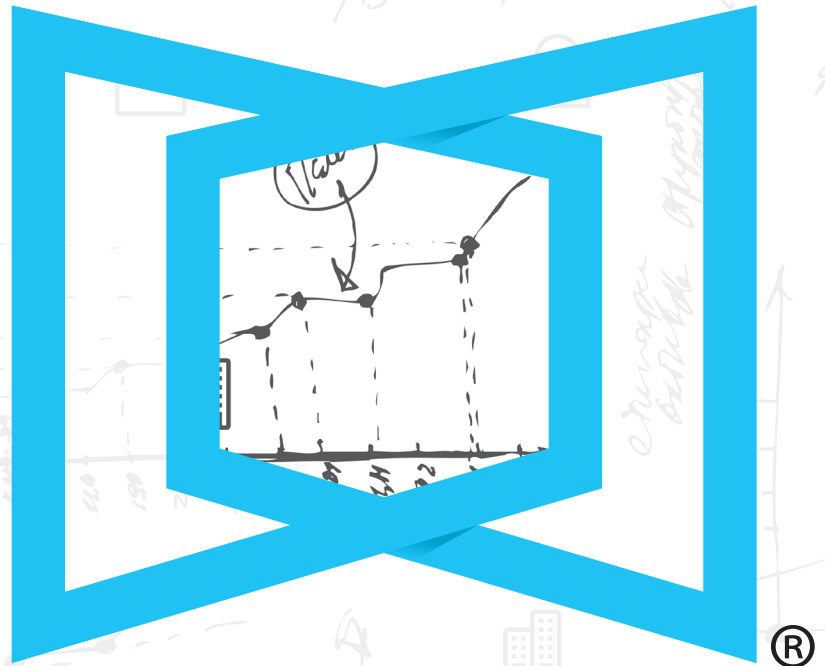


White Paper



What Are the Pitfalls of Outsourcing Your Facilities Management?



A Publication of



ServiceChannel[®]
Transparency Drives Performance

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Facilities Management Outsourcing vs. Managing Self-Performing Contractors

Facilities managers and leaders of facilities departments are tasked with cutting costs while boosting productivity. Budgets are continually tightened while demands on them only increase. In addition to such a bottom line-oriented focus, a facilities group should also be striving to improve a company's brand image (its "Brand Uptime") and driving revenue when possible.

One approach that some companies have turned to is facilities management outsourcing. The idea of having someone else responsible for your firm's facilities management obligations can sound appealing: just bring in "experts" to handle all of your issues and all you need to review is a single monthly invoice.

An outsourcing relationship, particularly a long-standing one, may seem sufficient but like many things, once you look under the surface, it may prove not to be as cost-effective as you think. Long-term contracts with promised savings can start off comfortably but once in place, as with any relationship, raising new issues or optimizing it can prove quite challenging.

Facilities managers can even be in a situation where they've inherited an outsourcing relationship and may think it's easier to simply continue it, regardless of its limitations and constraints to avoid any chance of service disruption.



"All I get is a bill for 'services' once a month. I have no idea where and on what we're spending our money or how to improve things."

VP Operations
Multi-site Service Provider




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Outsourcing your facilities management responsibilities can be appropriate in some situations but often can prove to be quite costly and inefficient in both the short and long run. Let's look at what outsourcing exactly is, the related broker approach and where and when it may or may not be appropriate.

What Is Outsourcing?

In our scenario, we're going to assume you have outside (external) contractors, rather than dedicated service employees that address most of your repair and maintenance service requests for your tens to hundreds or thousands of locations. In this context, contractor outsourcing is when you transfer the entire management responsibility to another third party that will source, manage and pay the service contractors directly rather than managing all of your third-party contractors and "owning these relationships" yourself.

In an outsourcing arrangement, often the third party simply "buys the budget" for your repair and maintenance operations. The outsourcer manages all of your facilities spend and is responsible for staying within the budget constraints you set.



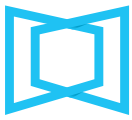
While beneficial in some respects, sourcing contractors through brokers can prove costly and can also increase your company's risk exposure.



The Broker Model

A related model to using an outsourcer to take responsibility for all the work getting done is the broker (or national maintenance organization [NMO]) model. Organizations like retailers, restaurants and any type of multi-location company can choose to rely on a number of brokers to source contractors and service providers on a transaction by transaction basis.





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Often, companies will direct up to about 20% of their spend through self-performing contractors with the balance handled by brokers or NMOs. Brokers sometimes try to control service costs by using contractors with low overhead and hence lower rates. In addition, they may have contacts in the contractor community along with specific sector knowledge. This can prove helpful when there's particular expertise needed to address certain service requests.

While beneficial in some respects, this type of sourcing contractors can prove costly; a broker usually both takes a fee from the contractor and adds a premium or markup for the organization, vastly increasing overall costs.


And lastly, using a broker can also increase your company's risk exposure. With this approach, you're offloading all the compliance and risk management related to the repair and maintenance (R&M) work done at your locations to a third party. And if not managed properly, this third party can put you into legally liable situations.

Why Outsource?

Outsourcing is an approach to consider if you have a very lean (or no) Facilities or Procurement department, and simply don't have the resources, bandwidth or interest, even with technology supporting you, to directly manage your contractor relationships and the work they do.

The benefit, or so it can appear as one, is that the outsourcer takes responsibility for all the work. When there's little to no staff, this may be the only option. Another contributing factor promoting outsourcing is that while it may be inefficient, it's been thought that it's not worth spending the resources, time and energy to manage your facilities spend yourself. Generally, with repair and maintenance "only" approximately 1.5% of a company's overall sales, the prior view has been that this amount has not been enough to warrant a dedicated team. The thought was that it's easier simply to have someone else manage this.

However, there's been a philosophical shift in this thinking more recently. Managing R&M had been low on most companies' priority lists, but to this point, most have addressed the easy items on the cost savings side of their businesses. In the never-ending quest to reduce costs, Procurement and Finance departments have realized that R&M's 1.5% could still be a significant enough amount to optimize and make more cost efficient.



Until recently, there had not been effective tools and business intelligence capabilities in place, and thus R&M had not been managed strategically.



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Management from Facilities to the CFO are realizing there are in fact unrealized savings opportunities; it's just that until recently, there had not been effective tools and business intelligence capabilities in place, and thus R&M had not been managed strategically.

Problems with Outsourcing

While relying on an outsourcing provider or set of brokers can be beneficial in some circumstances, there are some significant disadvantages to these models compared with maintaining responsibility for your own facilities repair and maintenance services.

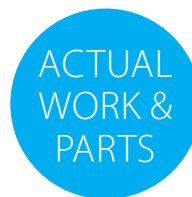
COST

One of the primary selling points that outsourcers promote is substantial cost savings. Through economies of scale, management expertise and other efficiencies, a facilities department is typically promised by the outsourcer that costs will go down, with less involvement required by the facilities department without sacrificing quality of services provided. What's not to like?

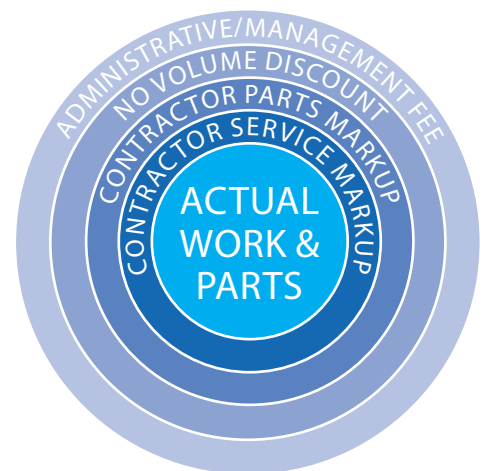
However, in most cases, these promised costs savings don't materialize, or certainly not to the extent anticipated. And in fact, costs can actually end up higher even when including any savings from a smaller facilities management group, from this added, external management layer. Working with brokers often drives the same results.

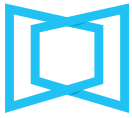
Why is this? A primary driver is that outsourcers typically cannot deliver sufficient volume discounts. While they're managing others' service requirements, they're unable to guarantee a sufficient level of work to win cost concessions from the contractors themselves. That, along with markups and various layers of administrative and management fees to ensure the outsourcer's own profit margin on top of the contractors', make attaining a lower cost level quite challenging at best.

Company Managed Costs



Outsourcing Total Costs






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NO VISIBILITY / NO DATA

A critical element missing and often not initially appreciated when migrating to an outsourcing model is the fact that there's usually no longer any view into how your money's being spent and what level of service you're getting. While at first it might seem easy to be getting only a single monthly invoice for all of your services, most companies soon realize that this simplicity comes at the expense of knowledge.

One of the reasons that outsourcers can't provide detail on their - actually, your - spend easily is because they don't have the data. Typically, they work in very paper-based environments with their contractors, making it close to impossible for them to provide you with actionable data in a timely fashion.

Many companies soon realize they have virtually no visibility into their spend detail and have no idea on exactly what they're spending their budget. Without any granular contractor/spend data, you lose the ability to understand if you're getting a good deal or how to efficiently manage your budget. Imagine getting a one-line Visa bill and then trying to manage your spend based solely on that.



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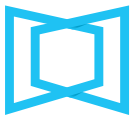
LOSS OF CONTROL

With neither visibility nor data, you no longer have the ability to monitor what's happening across your locations, benchmark yourself against standards and are unable to take necessary actions like implementing best practices to improve service. Without data, you're flying blind. And, in emergency situations, without a direct contact with your contractors, getting immediate service can prove difficult with an added layer of communication to work through. In fact, most companies tied to outsourcers find that they no longer have the ability to control their repair and maintenance programs as they would like.

CONTRACTOR RELATIONSHIPS

In a facilities management outsourcing relationship, someone else now owns the relationship with the contractors working at your locations. You no longer can select those contractors with which you want to do business; even excluding those with whom you don't wish to work can prove difficult. More important, you no longer have the ability to have contractors compete for your business on price or performance. They may be on site simply because of pre-existing relationships with your outsourcer.





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TIME INEFFICIENCIES

Without control of your contractors, you may end up with new contractors at your locations each time who are not familiar with your facility and/or equipment. This can result in your or your staff's time being wasted to bring new contractors up to speed. New contractors without any historical knowledge of your environment are also likely to take longer to perform service requests, and this extra time will surely result in greater costs.

You also may find that multiple contractors are coming to your same location, rather than a single contractor making a more efficient single trip to handle multiple service requests. On an ongoing basis, a rotating cast of contractors, out of your own control, can prove quite costly from an excess time perspective.

LIFE-CYCLE IMPACT

Contractors with whom you don't have relationships (and that don't have corresponding relationships with you) are likely to be more "quick fix" oriented and not focused on the long term life/performance of your equipment and facilities. While such an approach may seem faster or cheaper at first, in most cases this is likely to prove more costly in the long run.

No one else is as focused on maintaining your brand as you and your team are.

INCREASED RISK

While difficult to quantify, working with outsourcers increases your company's exposure to risk. With third parties responsible for what's happening on your site and directly impacting your customers and employees, there are numerous compliance, legal and regulatory issues that can impact you. Even your *Brand Uptime* is at risk when outsourcing your R&M responsibilities to someone not solely focused on your company.

CONTRACTOR COVERAGE

When working with an outsourcer, you're typically tied to its collection of third-party contractors and service providers. If you have a limited number of locations, or they're concentrated and overlap with the outsourcer's network, you can at least be assured of general contractor availability.

However, in most cases, outsourcers don't have a comprehensive network of contractors to maintain a portfolio of distributed locations, particularly a geographically dispersed one. Getting complete coverage of vetted contractors for every location can often prove difficult, if not almost impossible, when you don't drive the contractor sourcing process.



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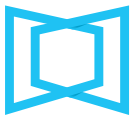
NO BRAND COMPLIANCE

Regardless of someone else's promised commitment to your business, no one else is as focused on maintaining your brand as you and your team are. When you put the health of your stores or locations (your "store uptime") in someone else's hands, you're basically putting the perception of your brand (your "Brand Uptime") in someone else's hands as well. In today's hyper-competitive environment, maintaining control of your operations and ensuring a superior customer experience is paramount.

HIDDEN COSTS

Another factor to consider when evaluating outsourcing relationships is the visibility into the pricing model. Often the outsourcer is simply "buying the budget" and it's not clear how you are being charged. Fees typically are not provided with any granular detail so there's no way of knowing exactly what is being charged and what extra costs are simply bundled into your monthly invoice.





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Problems with Brokers

While companies have used the broker model in the past, the facilities management sector has modernized, and more and more are moving away from it and toward a technology-powered, self-managed approach. This evolution has impacted all key aspects of the facilities management source-to-settle process.

FACILITIES MANAGEMENT PROCESS	BROKERS/NATIONAL MAINTENANCE ORGANIZATIONS	SELF-MANAGED WITH TECHNOLOGY
Contractor Sourcing	Limited to broker Rolodex	Searchable contractor directory based on historic performance and business credentials
Contractor Credentialing	Broker managed paper documentation (e.g. insurance)	Automated alerts when credentials invalid/expired
Contracting	Paper RFPs and manual review process	Brokers provide expertise only when needed; can issue e-RFPs
Contractor Management	Phones, faxes, paper work orders; no way to manage parts and supplies	Automated work orders, check in/out, issue level NTE management, parts ordering, workflow management
Payments	Paper invoices, late payments	Automated invoice, match, payment and discount management
Reporting	Limited to calling broker for information on ad hoc basis, limited data availability	Complete transparency, flexible reporting in your own hands for independent verification



CASE STUDY

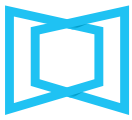
Company:
National restaurant chain with over 500 locations

Original Driver:
With internal pressures to control and cut costs, the facilities department moved to a contractor outsourcing model. The outsourcer promised significant costs savings without any impact on service levels.

Result:
After working with the outsourcer for a significant period, the FM did some ad hoc analysis across a number of chain locations as the promised cost savings weren't materializing. He discovered that the outsourcing program had not only not delivered the promised savings but he was shocked to learn how much they were spending. The chain was paying 30%-40% more than what the average contractor rates were in his geographies. In addition, he couldn't control the quality of work being performed and jobs were taking longer, resulting in higher billing than necessary.

Next Step:
Dissatisfied, the chain cancelled its outsourcing contract and moved to a self performing contractor model supported by ServiceChannel's contractor management and business intelligence platform.





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Business Constraints & Data Limitations

With outsourcing (or using brokers), you can find you're now operating under a number of constraints in what you are able to do to manage your business and even what information you have access to, to help you make the right decisions. Often, companies depending on outsourcers find they're unable to take actions they want or feel they need to, and often simply no longer have the critical data or knowledge related to their own operations to inform those decisions.

TYPES OF INFORMATION **NOT** AVAILABLE WHEN OUTSOURCING

- Costs per Location
- Costs per Trade
- Costs per Contractor
- Contractor Performance
- Outlier Location Costs
- Benchmarking Analysis
- Available Contractors
- Warranty / Preventive Maintenance Costs
- Work Order Volumes / Insights
- Location Analysis
- Service Provider Analysis
- Metric-driven KPIs

Managing Your Own Facilities

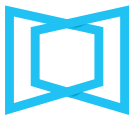
More and more companies are finding that outsourcing their facilities spend and responsibilities to a third party results in greater costs, loss of control and unknown or inconsistent service levels. While outsourcing projections can look to save money and simplify activities, we've seen that there are a number of factors coming into play that can make this model much less appealing in practice.

Cost is one of the principal benefits in moving from an outsourcing model. We have seen across a number of companies that **disintermediation of third-party contractor management results in 10%-12% savings for the same level of service.**

Across many sectors, executives are realizing that facilities is an important area for their companies, and exploring how they can manage repair and maintenance intelligently like they do with other important spend categories. They've learned that they need a single tool set along with a complete view of their data to do just that, as they do similarly with other parts of their companies.

By having the key data and visibility into all aspects of the work your contractors are doing for you, managing your own R&M program can be done as effectively - if not more so - as other budget areas of your company.





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By having the key data and visibility into all aspects of the work your contractors are doing for you, managing your own R&M program can be done as effectively - if not more so - as other budget areas of your company. Today, there are tools that can support this approach and drive powerful cost savings and related benefits.

With a modern facilities management platform like ServiceChannel's, you can easily manage your program with actionable data and newfound business intelligence to optimize your operations.

Hybrid Approach


While some companies wish to maintain an outsourcing relationship, they can mitigate some of the risks we've highlighted yet still benefit from the advantages that a more data visible approach offers. We have seen success with some companies taking a hybrid "outsourced-system" approach.

In these cases, companies have their outsourcers/brokers use a business intelligence-based facilities management platform like ServiceChannel's. With all of your "outsourced" service work now being captured, you get independent data to gain insight into your outsourcer's spend (thus keeping your outsourcer honest), easily verify your promised cost savings and, importantly, have a complete picture across all your contractors and work orders. This way, you overcome the typical lack of visibility by gaining awareness into your own operation, along with a deeper and truer understanding of your actual spend.

Benefits of Self-Managing Your Facilities Management

As an alternative to straight contractor outsourcing or a broker arrangement, more multi-location companies are instead relying on a self-managing contractor approach. Self-managing your contractors typically delivers a more consistent level of quality, as they're closer to the actual work and know how to manage their own tradesmen. Often, they'll be working on the same facilities for long periods of time.

Beyond the various constraints of relying on a third party to manage your facilities program, there are numerous benefits to managing your operation yourself.



Self-managed contractors typically deliver a more consistent level of quality, as they're closer to the actual work and know how to manage their own tradesmen.





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The move to an outsourcing model is often a C-suite level decision, indicative of the fact that facilities budgets are viewed increasingly important at the executive level of companies. However, as the cost, risk and service level ramifications are learned, other areas of your organization may be tasked to improve the situation. Managing your own R&M operations and contractors supported by using a facilities management technology platform can put you in a position to improve your cost structure and service levels through boosting your “Facilities IQ.”



Managing your own R&M operations and contractors supported by a modern facilities management platform can put you in a position to improve your cost structure and service levels through boosting your “facilities intelligence.”

 CONTROL OVER CONTRACTORS	 VISIBILITY INTO CONTRACTORS
Power to negotiate and manage your own contracts	Select your own contractors to ensure the best service at the best price
Use your SLAs and not a third party's	Measure contractors against your own KPIs
Own the contractor relationships	Evaluate contractor performance in real-time
Use contractor scorecards to monitor performance	Visibility into expense line items to understand exactly what is being purchased

About ServiceChannel

ServiceChannel provides facilities managers with a single platform to source, procure, manage and pay for repair and maintenance services from commercial contractors across their enterprise. By delivering unprecedented transparency and data-driven analytics of service quality, across all trades, locations and contractors, facilities managers drive significant brand equity and ROI for their organizations without outsourcing or investing in new infrastructure. The world's leading global brands use ServiceChannel and Big Sky solutions daily to help optimize millions of transactions and billions of dollars of spend annually.

