

CASE STUDY

Implementing a Next Generation Outsourcing Strategy: Optimizing in a Dynamic Supplier Marketplace

Next Generation Corporate Real Estate (CRE) Challenges

OVERVIEW & CHALLENGE:

Define Next Generation Objectives & Pursue via RFP or Renegotiation

A top tier technology company's head of global real estate faced a strategic choice. What was the appropriate next generation strategy for workplace services across a global portfolio of 25 million square feet and spanning nearly 100 countries? The company substantially outsourced its portfolio of corporate real estate (CRE) services over the previous five years, maintained good working relationships with incumbent global suppliers and managed through a governance organization comprised of regional directors and functional CRE experts totaling roughly 100 employees. The question was: Where to go from here?

Key stakeholders already drew their positions. The CPO was actively pushing for a competitive market RFP. Regional operational leads, reliant upon incumbent suppliers for a range of client-facing and critical infrastructure-linked services, were skeptical of further improvements. They favored renegotiations due to concerns over operational disruptions and supplier switching costs. Some were questioning whether previous outsourcing penetrated too far and if it was time to bring selected functions in-house for more control. The C-suite was asking how existing contracts compared to current market standards considering significant supplier market consolidation. There was a sense of an inflection point in the industry.

This charged and divided-opinion environment was present in a Fortune 100 client who selected Trascent to formulate an optimal strategy that would both address C-suite expectations and alleviate the CRE organization operational concerns. Such a strategy also had to consider multiple service lines across four diverse global regions with varying maturity and supplier experience.

This client project was especially compelling for Trascent because two of the largest incumbent suppliers merged during the project after each had submitted a separate

ENGAGEMENT AT A GLANCE

INDUSTRY: High-Tech

SCALE: Global

SCOPE: Facilities Management (FM), Project Management (PM) and Real Estate (RE) Services (Transaction Management & Lease Administration)

KEYS TO CLIENT SUCCESS:

- Deliberate and sustained stakeholder engagement
- Clear plan to address service challenges and supplier talent gap
- Transparent and flexible contract structure with aligned incentives

proposal. In addition, some of the incumbents and bidders maintained significant B2B relationships with the client, raising the prospect of an unexpected escalation in discussions to higher levels within the client organization.

SOLUTION:

Current State Assessment, Program Benchmark & Go-to-Market Strategy Development

The high-tech organization engaged Trascient to conduct a comprehensive inward and outward-looking assessment around the company's strategic approach. Key questions included:

- Which strategic approach should we take to the market – an RFP or renegotiation with incumbent suppliers?
- What is the optimal operating model – a predetermined functional “bundle” of services (e.g. facilities management (FM) combined with project management (PM) or FM and PM plus real estate (RE), etc.) vs. a market-driven solution, selected based on bidders' proposals?
- Should we bid (and potentially award) geographic regions together or separately?
- How to best build upon and improve service delivery and provider relationships from the prior outsourcing generations without jeopardizing previous gains?

Key themes emerged from the Trascient study that helped to decide upon a strategy, guide the organization in developing a market RFP and ultimately select the service provider solution. While many detailed findings informed the strategy and approach, these fell into four major categories:

Financial Transparency

Upon review of the client contract, one conclusion was abundantly clear – the contract itself was not the primary issue. At the core was that some of the suppliers interpreted the agreement in a way that diverged from its intent. This led to a situation where the client could not understand the actual costs of services in detail, an issue that manifested slowly over the course of five years.

Flexibility

The client recognized that its own organization could be complex and process-heavy, and sought a provider relationship which would challenge, where appropriate, issues that arose out of this environment. In addition, the client organization was constantly in flux, either because of frequent acquisitions or resulting from internally-driven changes. Due to this complexity and change, metrics to measure the effectiveness of the relationship were often outdated, non-impactful or insufficiently tied to client objectives.

Access to Talent

The client was not getting consistent “A-Team” talent from providers in key roles, even though the scale, global nature and multi-functional structure of the account was thought to merit this kind of attention. The talent was especially inconsistent within the central team management level.

Think & Act Like the Client

Empowerment concerns existed on both sides of the relationship and providers inconsistently exercised (or received) “ownership” over services within their domain. The client sought a new model which would encourage and incent both parties to work in the best interests of the client and work towards common goals.

RESULTS:

A Deliberate Process with High Touch Internal Engagement, Resulting in Properly Aligned Incentives, Substantial Savings & Improved Client Satisfaction

Following the conclusion of the current state assessment, Trascient facilitated the design and implementation of a Go-to-Market strategy which involved a combined global RFP for all three functions (FM, PM, and RE). Ultimately, the company awarded FM and PM on a regional basis and RE globally to a single provider.

Stakeholders, including subject matter experts in areas, such as energy management and space planning, received multiple opportunities to provide input throughout the process, and decision-making consistently occurred in a transparent and data-driven environment.

To address concerns over both cost transparency and A-team talent, the commercial model pertaining to dedicated resources utilized a “pass-through” structure for all functions. The contract explicitly specified the desired level of invoicing detail and made key financial elements fully auditable.

A new performance management system replaced supplier KPI scorecards with CRE goals directly embedded into supplier metrics, including new measurements related to the performance of the supplier account team talent. Fees associated with individual capital projects and transaction-related commissions were placed partly at-risk against these metrics to more directly tie “one-off” performance in these areas to client satisfaction.

There were several accomplishments as measured a year after implementation:

- Customer satisfaction scores increased, including from 3.5 to 4.0 (on a 0-5 scale) for one function.
- Global supplier relationships previously weighted governance simplicity over regional operational performance, the new model switched them to best-in-region suppliers.
- The client saw talent and solution improvements at a local and central team level, but also realized cost reductions of 50% per dedicated FTE for highly skilled (e.g. PM) resources resulting from the pass-through cost structure shift.
- The company obtained guaranteed facilities management direct cost reductions in excess of its five-year objective, with over half of the total attained by the end of the first twelve months under the new agreement.

A careful up-front examination of stakeholder requirements and maintaining a strict adherence to the initiative’s key principles ultimately delivered the client’s global program on each major objective in equal measure.

ABOUT THE AUTHOR



Nate Erpestad, Managing Director, Trascient

Nate Erpestad is a Managing Director of Trascient Management Consulting with more than 12 years of engineering, industry, outsourcing and advisory experience. He has advised and managed projects for multiple global organizations in Corporate Real Estate and Facilities Management, with an emphasis in sourcing strategy, structuring contract models, governance design, performance management as well as negotiations. He has worked in all regions of the globe and has negotiated over \$5 billion in total contract volume, resulting in contractual savings in excess of \$500 million.

ABOUT TRASCENT

Trascient, a premier global management consulting firm, drives measurable performance improvements and generates quantifiable results in Corporate Real Estate and Facilities Management (CRE/FM). The firm's clients span biopharmaceuticals, consumer packaged goods, diversified industrials, financial services, high technology, media, oil and gas and other sectors. Main areas of focus include current state assessment, sourcing & outsourcing strategy and implementation, supplier governance and CRE/FM technology strategy. Trascient Conferences are attended by CRE/FM and business leaders and held in North America, Europe and Asia Pacific.

For more information, visit www.trascient.com.

To learn more about Trascient and its breakthrough performance solutions in CRE/FM, please contact:

Yvonne Liu, Marketing Director

+1 (646) 295-4299

yliu@trascient.com