Evolutions in next-generation integrated facilities management (IFM) outsourcing contracts: Implications for corporate real estate, facilities management and procurement executives

Monte Marcum

Received (in revised form): 15th May, 2016

Trascent Management Consulting, LLC 460 US Highway 22 West Suite 102 Whitehouse Station, NJ 08889, USA
Tel: +1 (919) 673 6137; E-mail: mmarcum@trascent.com

Monte Marcum *is a Managing Director at Trascent with more than 15 years of strategic sourcing and global supply chain management expertise. He brings a broad, innovative perspective to outsourced operations and service delivery strategy development. Mr Marcum has worked with multiple global organisations in the telecommunications and electronics manufacturing sectors across Europe and Asia. His specific areas of expertise include the management of contract negotiations, sourcing processes, organisational design and competitive benchmarking. Throughout his career, he has spearheaded numerous strategic sourcing request for proposal (RFP) efforts to market and negotiated more than US$6bn in total contract value across various industries. Mr Marcum received a bachelor's of science engineering degree from Virginia Tech and a master's of business administration from Duke University, receiving* magna cum laude *recognition from both institutions.*

Abstract

As companies continue on the integrated facilities management (IFM) outsourcing journey, corporate real estate (CRE), facilities management (FM) and procurement executives must evolve their sourcing strategies from first-generation approaches to accommodate shifts in internal goals and objectives and respond to changes in the supplier industry. This paper explores what companies are doing in their next-generation IFM outsourcing efforts and how these strategies both influence and react to developments in IFM suppliers' service offerings. Characterised by multi-regional approaches and simplified versions of their first-generation contracts, cornerstones of these shifting strategies include addressing innovation and a broader view of total facility operating costs. Practical insights drawn from companies' experiences and lessons learned in overcoming issues will offer guidance to firms that are either considering starting the IFM journey or enhancing their existing programme.

Keywords: integrated facilities management (IFM) outsourcing, facilities management, next-generation strategic sourcing, performance management, innovation, governance, transition, lessons learned

NEXT-GENERATION IFM OUTSOURCING

The outsourcing industry as a whole uses the term *generation* to describe a company's outsourcing maturity and divides it into *first-generation* and *next-generation* contract

Corporate Real Estate Journal
Vol. 5 No. 4, pp. 360–376

2043–9148

terms — whether the function is information technology (IT), human resources (HR), financing and accounting or facilities services. First generation refers to the initial time a company outsources facilities management (FM) using an integrated model. These deals usually include some degree of transferring internal client staff to the supplier whose duties are primarily related to FM. Existing contracts and internal staff are shifted to an integrated facilities management (IFM) supplier who combines an integrated self-delivery model with subcontracted services. Next-generation clients are those in any subsequent contract term beyond the first contract. The new contract could be a transfer from one supplier to another, a renegotiated contract extension or renewal with the incumbent supplier. As companies progress the maturity of their outsourcing practice, their objectives typically follow a commensurate level of sophistication, as outlined in Figure 1.

THE IFM MARKET AND ITS NEXT-GENERATION EVOLUTION

The global IFM market has developed substantially over the past decade with increasing levels of sophistication among both clients and suppliers. Continued centralisation of the real estate and FM functions within companies, combined with the development of FM global category strategies, has driven this growth. Estimates of annual corporate IFM spending are in the range of approximately US$75–100bn in a market comprised mostly of FM and project management services.[1] To clarify, this range represents the annual service spend under management in the IFM market and not suppliers' reported revenue. The difference between spend under management and reported revenue is that suppliers pass through a significant portion of IFM expenses to their clients, including self-performed labour, subcontractors and materials. Depending on the differences between firms and their accounting practices, this spend may not be actual reported revenue. Spend under management is a better method to describe the scope and scale of an IFM contract.

A small number of major global firms dominate the IFM supplier market. In December 2015, Trascent published a primary research survey among these major players to understand the 2014 market activity based on IFM deals (see Figure 2).

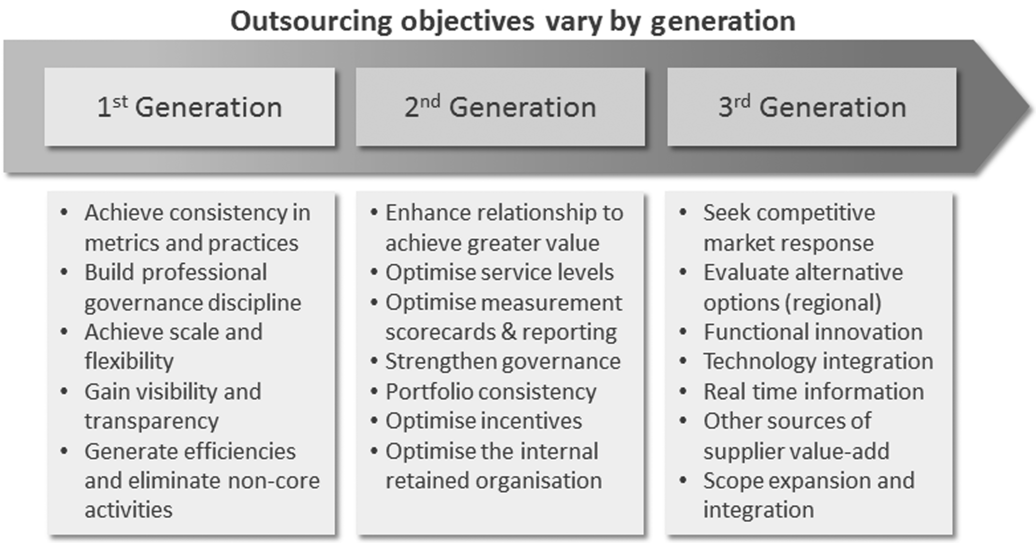

Figure 1 Goals and objectives through successive IFM generations

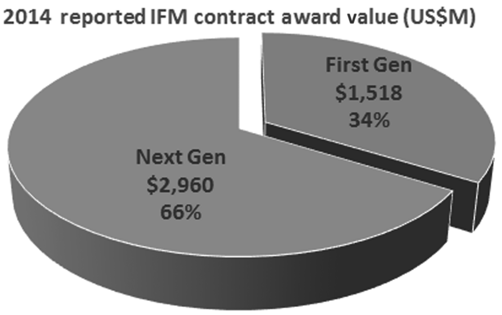

Figure 2 Trascent survey results by first versus next generation in 2014

The research data revealed next-generation contract awards were 66 per cent of the total awarded contract value.[2] The survey data results also revealed that the IFM market has reached an inflection point of maturity as suppliers reported receiving higher contract values in next-generation deals than first-generation awards. Next-generation clients therefore will be an increasingly more influential group and will shape the industry to a large extent.

IFM SUPPLIERS — COMPETITION AND CONSOLIDATION

There is a regional presence and capability difference within the IFM supplier base of the large global suppliers, namely CBRE, Cushman & Wakefield, ISS, JLL and Sodexo. The North American IFM supplier market is in a transitional state after CBRE's acquisition of Johnson Controls' Global Workplace Solutions business and the merger of Cushman & Wakefield and DTZ. CBRE and JLL are the pre-eminent competitors for large portfolios and, combined, have over half of all IFM accounts sized over one million square feet in the region. The gap that this transitional state has created between CBRE and JLL and the rest of the North American supplier base will probably close over the next few years as a result of both supply and demand pressures. Multiple sources observing the IFM industry expect client demand to remain strong with over 10 per cent annual growth in contract awards for the foreseeable future.[3–5] Concurrently, while responding to this demand in growth, it is quite probable that North American IFM supplier competition will increase as Cushman & Wakefield, Sodexo, ABM, ISS and Lincoln Harris expand their client footprints in the region. Aramark, AECOM, Compass and SBM represent another potential set of service providers that may enter the IFM space from their respective core businesses. This group is currently pursuing a more specialist service line strategy today and tends to partner with the major IFM suppliers.

The UK and European continent benefit from strong regional suppliers in addition to the large global names of CBRE, JLL, Sodexo and ISS. Companies such as Bilfinger, Veolia, Engie, Mace Macro, MITIE and Spie are a few names that offer local alternatives and provide competitive pressure on global IFM suppliers. They are also acquisition targets for the large players. Bilfinger, for example, publically announced in January 2016 that it was divesting its facilities services division, which Swedish based EQT Partners acquired for €1.4 billion on June 2, 2016. Specialised technical services providers are also receiving acquisition attention as the large global suppliers respond to a trend of clients preferring a greater degree of self-performance through expert acquisition, such as CBRE's acquisition of the technical UK firm Norland, and organic investment in technical resources. Given the supplier market consolidation, clients will work with fewer suppliers, but also will seek to maintain a degree of supplier diversity options in their IFM supply chains. Consolidation also will create space for new, more specialised suppliers to fill gaps left by acquired companies.

Localised and regional suppliers will continue to play a significant role in emerging markets such as Brazil, Argentina, Mexico, India and China. Broad IFM capabilities in the Asian market remain limited to the major global names at the moment. While the leading global suppliers generally have a capable footprint in the larger metropolitan areas in these markets, these same firms often look to partner with smaller firms to supplement their presence in locations where they do not have an existing client base. There is even a precedent among the large global suppliers to collaborate together. For example, one of the author's clients has an IFM contract with JLL in South America where ISS is one of the primary subcontractors performing both technical and site support services. In addition to basic supplier capabilities, companies must also consider the various labour laws and sometimes unfavourable tax regimes when considering an IFM model in these countries. Brazil, for example, is well known for its double taxation policies that often impact upon subcontractor relationships.

What does this mean for next-generation clients? Once companies have gone through at least one generation of IFM experience, they are more equipped to govern these complex relationships and are more capable of managing more than one supplier between regions. It is also a path to expand the IFM penetration rate in other markets after having established confidence and credibility in their larger and more developed regions, since penetration is not uniform by geography, business line or asset class. It is the author's experience with clients that next-generation contracts typically emphasise regional operational performance over other factors. This tends to foster regional (continental) contracts where companies select best-in-region suppliers. First-generation deals, in contrast, are principally driven by an objective of service consistency, efficiency, cost control and transparency.

SCOPE OF IFM EVOLUTION THROUGH SUCCESSIVE GENERATIONS

First-generation client initiatives are predominantly characterised by maximising savings, effectively transitioning employees and ensuring those resources are properly treated when they move to suppliers, and developing service delivery consistency across their portfolios. Once they achieve these goals, they are better positioned to look into a wider strategy that addresses both a broader total cost of real estate ownership and deeper scope penetration. Figure 3 serves to highlight the primary objectives and common IFM scope expansion plans as companies progress from one outsourcing generation to the next. As companies reach a level of confidence in the outsourcing relationship, they become more willing to penetrate the IFM scope deeper into specialised areas such as assets supporting manufacturing space (but excluding production assets themselves), laboratories and data centres where the operational risk is significantly greater than servicing office space.

Next-generation clients predictably demonstrate greater readiness to take a more integrated and comprehensive array of services related to facilities into their successive IFM contracts. Companies are better prepared to execute and realise beneficial results from including these more complex and potentially high impacting scope expansions in next-generation IFM contracts when they approach these services from a relatively well-functioning FM service delivery foundation. Next-generation service line expansions often include energy management and enlarged roles for project management and real estate services such as occupancy planning, acquisition/disposition transactions and lease administration. Using energy management as an example, this scope expansion looks like programmatic audits designed to deploy capital with the largest return on project investment through demand monitoring and influencing energy consumption. Incorporating such a practice in the overall IFM scope can produce significant reductions in energy costs, but ensuring basic services are operational and

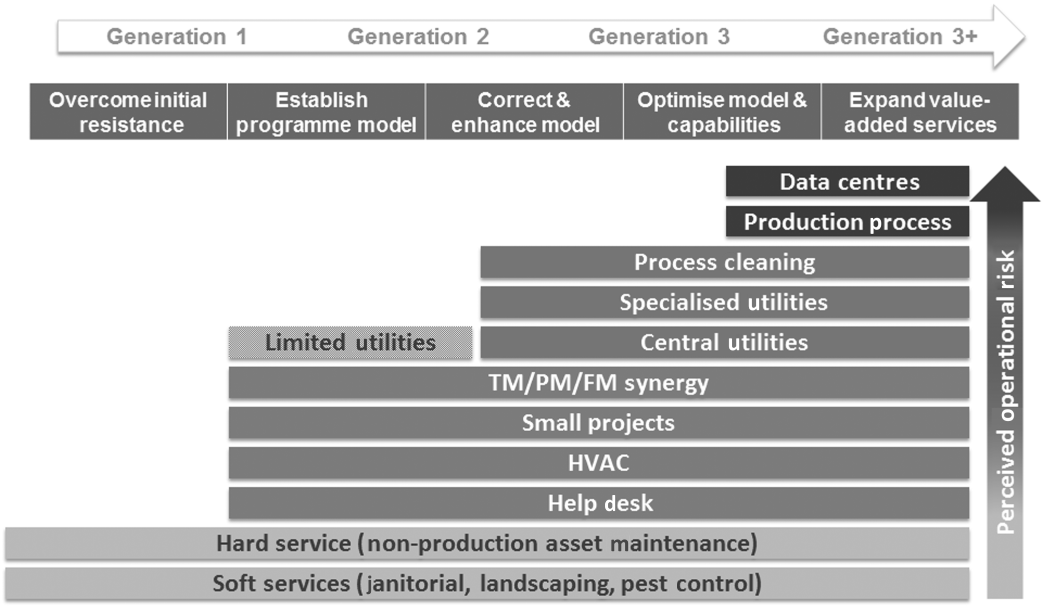

Figure 3 Typical IFM scope expansion and objectives

the risk for business disruption is well mitigated are prerequisites prior to entering this next level of maturity.

Market activity research uncovered a trend counter to this scope expansion in the food service and security categories. Only 5 per cent of the supplier responders in the Trascent survey reported deals including security and food services as part of principal agreements in the total award scope.[6] These are relatively large spend categories where suppliers often cite their role in client contracts as managing agents. Debate around excluding these categories from the IFM scope is common because clients often have retained category expertise and wish to manage the category on a primary contract basis rather than through an IFM intermediary. Clients also may elect to directly manage the category in next generations of the contract after the savings leverage benefits of IFM have dissipated. Global IFM suppliers generally subcontract these categories with a few exceptions where suppliers largely self-perform services, such as Sodexo with food services. There is a general client trend of preferring self-performance when suppliers present the capability; however, suppliers often rely on subcontracting many non-technical or specialised services, especially with security where the cost structure is largely a prescriptive labour requirement for guard posts. This generally limits IFM suppliers' ability to significantly drive savings and operational efficiencies compared to other categories.

Although companies establish IFM programme charters with good intentions to harmonise the scope across their portfolios, the majority report that there is still a disconnect between the charter and the actual scope implemented in the programme. The root cause often stems from a number of factors or combinations and this is a common issue for companies to address in next-generation outsourcing to prevent further value leakage. Inconsistent scope application, local site resistance and relatively recently acquired companies are common reasons that hamper scope consistency. Even where companies have largely implemented an IFM programme across the vast majority of their locations, differences among space types (manufacturing in particular), business unit control, local requirements, geography, supplier capability and individual talent levels all fuel the complexity around this inconsistency.

Where this fragmentation drives operational inefficiencies or a loss of financial savings, next-generation companies are likely to be better served by correcting the inconsistency prior to expanding the scope. A primary reason for this is that companies make better spending and budgeting decisions from a standardised service delivery that should result in a uniform end-user experience. Without a consistent scope, budgeting is a more challenging exercise because the multitude of outcomes with various price tags complicate the value judgment when assessing 'is the difference worth it' for each difference. Benchmarks such as cost per square foot are a common way to compare sites and, when the scope differs, it requires a further adjustment calculation to determine if costs are appropriate. Scope uniformity is also a factor in making operational decisions such as whether to standardise or change service levels. Chartering into a significant service expansion from a position of highly inconsistent scope is an unwise venture for most companies moving into their next generation. The effort is better spent to first get the majority of implemented scope synchronised and then proceed with expanding services.

SCOPE IMPLEMENTATION PRACTICES

Finalising scope boundaries is one of the most challenging issues in any IFM programme, especially in first generation, but also into next generations as companies push to increase the scope. In some cases, first-generation contracts result in systemic issues or companies realise their outsourcing scope was prematurely aggressive. While these situations do not describe the majority of deals, they do present unique challenges where next-generation clients may actually retreat on scope to simplify and stabilise operations. This tends to be a temporary state that usually lasts one or two years depending on the extent and impact of issues. Thoughtful companies use their next-generation scoping and sourcing efforts to correct these issues with a long-term plan to continue the outsourcing journey and expand their scope. Achieving scope consistency across sites in a first-generation outsourcing effort is a common challenge that many companies fail to fully realise during their initial term. This is especially true for companies with manufacturing space within their scope whose sites often operate with a high degree of autonomy. Multiple companies report that end-user and key stakeholder satisfaction were principally the most important factors behind successful scope expansion and uniformity. Without minimum client satisfaction, companies continually face an internal battle to justify the programme and respond to critics, which in turn precludes realising the full potential value. This means that, as companies enter into the next generations, they should carefully manage internal stakeholder expectations and satisfaction before pushing through additional scope.

Some companies implemented an authoritarian approach to scope inclusion by challenging sites or business units to justify opting out of IFM by demonstrating a financially positive business case to do so. The basic premise was that, if the IFM supplier could demonstrate sufficient capability and commit to delivering the services below the cost baseline from the prior 12 months, participation in the programme was mandatory. This requires senior executive alignment and strong internal governance to manage the compliance which first-generation companies often struggle with, while those in next generations generally have a better track record of delivering.

While the reasons for scope inclusion and delivery consistency form the foundation for a robust IFM programme, companies that fail to recognise and address end-user dissatisfaction bolster the resistance to expansion. Smart organisations and learning cultures realise the need to acknowledge and address shortcomings prior to pushing an expansion agenda that alienates those groups that have had a bad experience, or even a negative perception. It requires time and effective change management, but companies assessing their next-generation scope will benefit from making the effort to convert opposition to advocacy. There are clearly cases where people are unreasonable and have ulterior motivations, however, and, after carefully applying sound change management efforts to bring appropriate people into developing the solution, there comes a point at which to escalate and move on.

STRATEGIC SOURCING CONSIDERATIONS

As outsourcing contracts approach the end of a term, clients face their next-generation strategy decisions, which present a different set of issues and opportunities to those from the first generation. These include challenges such as how to optimise the IFM model and how to expand the scope and enhance service value from broader and more strategic relationships. A critical issue that these companies face is known as the *incumbency dynamic*.[7] Incumbency dynamics revolve around the decision of whether to go to market or negotiate with the current supplier. Such decisions are complicated by the fact that clients may lack current market benchmarks or possess an incumbent contract that may have weak disengagement service provisions or a fixed price structure providing limited spend data on the client's actual operating cost baseline.

In most negotiable situations, the party that has an explicit or perceived time pressure is typically at a disadvantage compared to the one that does not feel forced to make a move in haste. Companies should begin giving consideration to their next-generation decision-making phase with at least 18 months remaining in their current contract term. This allows sufficient time to critically assess their current state and future direction without having the pressure of needing to make reactive decisions on the cusp of an expiring contract. While it takes time to think through and articulate what the next 5–7 years should look like, companies that invest this timely effort find that they can better position themselves in the market to achieve their long-term goals and approach their next generation with a clear strategy.

Operational assessment

The first step does not need to include the incumbent supplier or the overall IFM supplier market. It needs to begin with a self-reflection exercise whereby companies evaluate their internal operations, how well they have achieved against expected business goals and where they anticipate going in the future. Only from a clear and articulate internal understanding of goals and vision can companies best begin developing their IFM sourcing strategy. As illustrated in Figure 4, a typical approach would start by analysing the following four factors:

- goals and objectives across the dimensions of cost, quality and service delivery;
- company business strategy and its direction towards achieving future goals;
- company landscape: is the portfolio scope projected to expand or contract;
- supplier performance compared to business expectations and market benchmarks.

The results of a company's current state assessment and future goals will provide the basis for a decision framework among three primary options of insourcing (or de-scoping some services to a third party), renegotiating, competitively sourcing or some hybrid combination of each. Each option presents a blend of advantages and challenges that are further compounded depending on the unique position a company is in and the health of its relationship with the incumbent supplier.

Insourcing

Completely withdrawing from an outsourced model is actually quite unusual in the IFM industry. Once companies have made the investment to transfer resources and adopt a service provider model, it becomes quite challenging to revert. The financial impact and sensitivity of rehiring a significant number of employees usually represent too high a barrier to overcome for most companies addressing supplier relationship issues and this prevents them from returning to a pre-IFM state. In the very rare situation where a company can demonstrate a feasible business case, the operational practicality to re-establish a fully insourced model is daunting. More commonly, situations occur where companies withdraw a specific segment of the scope from the IFM model that may require unique technical skills or a single category such as security services where companies often can retain the contracts and manage just as efficiently as IFM suppliers. This is also known as de-scoping, where a third party still provides the service but is simply not part of the IFM scope.

Renegotiation and renewal

Renegotiation with incumbent suppliers often can be the path of least resistance as it reduces the duration and level of effort that consumes internal and external resources. This strategy also preserves a relationship, especially when there is a healthy mutual understanding between the two parties; however, renegotiating to drive significant improvements can be difficult. Incorporating substantial changes such as market pricing, technology advancements or enhanced service developments becomes quite difficult to introduce into an incumbent supplier who is attached to the way in which a current contract functions. This can leave companies sensing a lack of innovation and expanding value in the IFM outsourcing model. Companies often find themselves involved in a protracted renegotiation effort when they attempt to push through sweeping changes to their prior agreement. They also find internal resistance from a policy perspective when significant amounts of spend that facilities consume do not face a market pricing test after 5–10 years with a single supplier. Despite the challenges that renegotiating a contract presents, the Trascent survey data also show that 50 per cent of the next-generation contract awards in 2014 were renewals (Figure 5).[8] Renegotiated renewals highlight the importance of a healthy relationship and also reflect clients sustaining IFM as a long-term strategy with a willingness to accept continuity with the same supplier for up to a decade or more.

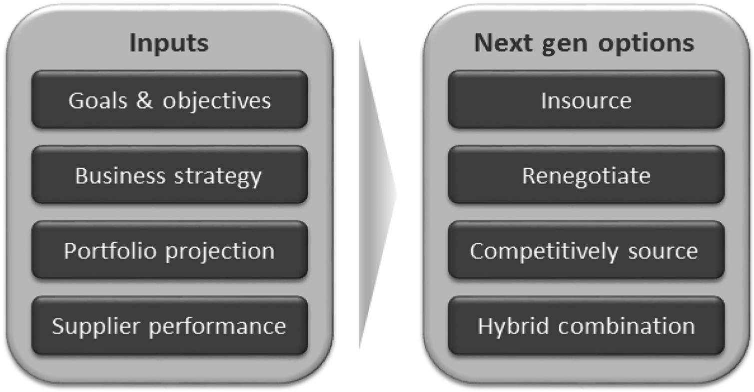

Figure 4 Inputs and outputs for next-generation contract options

Competitive sourcing and the incumbency dynamic

Going to market through a competitive sourcing process is the most common response to overcome the issues that renegotiation with the incumbent presents and essentially flips the benefits and challenges. While there will be inherently more effort and an initial upfront cost, introducing competitive pressure serves to align pricing and solutions with market leaders. This is especially true when companies properly prepare the initiative to ensure they receive credible alternative options and are willing to switch from an incumbent. Developing the process and environment to receive these actionable

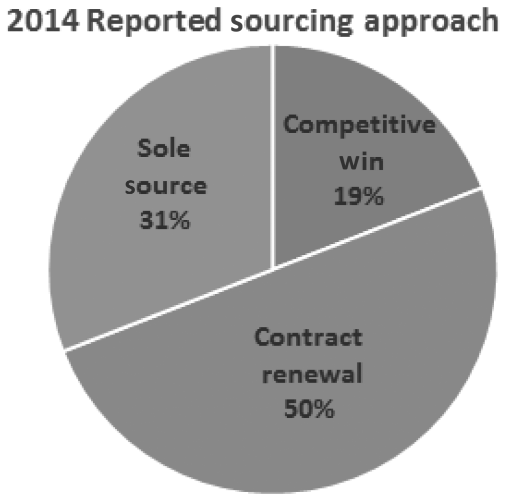

Figure 5 Approach to market for next-generation sourcing

proposals from the market is the central issue creating the incumbency dynamic because supplier attrition in next-generation sourcing processes is a critical factor to consider and manage well. Companies should expect some degree of attrition in any sourcing process. Supplier attrition rates in next-generation sourcing efforts often double first-generation rates primarily due to three reasons:

- incumbent relationship;
- presence and capability;
- bandwidth constraints in pursuit and/or transition teams.

The IFM supplier market is a relatively small population of companies that make the effort to remain current with their competitors' clients and performance. When there is a perception that a client has a moderate to good relationship with an IFM incumbent, other suppliers recognise there is likely to be an even higher threshold among cost, quality and delivery factors to overcome in order to unseat an entrenched incumbent. New entrants must demonstrate an operational solution and commercial model that is both more attractive than the incumbent's and also one that sufficiently mitigates a client's efforts and risks with transition, business disruption and general uncertainty about how things will work with an unfamiliar supplier compared to how they are used to working.

As the supplier market evolves and particularly in the current wake of supplier consolidation, the issue for next-generation clients initially centres on their more limited supplier options to service their portfolios. Unless the client's relationship is known in the supplier market to have some challenges, even a mediocre incumbent relationship will justify some suppliers not to invest their limited resources in pursuing the opportunity. A well-known and good relationship with a supplier incumbent suggests to the market that a happy client has placed and reinforced the barrier to their potential entrance as a new supplier.

How do companies overcome the incumbency dynamic and encourage request for proposal (RFP) participation? In order to conduct a productive sourcing process that has sufficient competition, companies must carefully think through their supplier engagement strategy and messaging. Where first-generation outsourcing initiatives normally require more time and energy to be spent on internal alignment, companies entering subsequent generations usually accept the outsourced operational model and associated financial benefits. These firms must endeavour to ensure that they obtain actionable options from the market. Critical success factors in this next-generation IFM RFP planning stage include:

- fundamental willingness to replace an incumbent based on RFP data results;
- independence from incumbent supplier data and processes;
- clarity and crisp distinction on expected outcomes, goals and objectives;
- establishing senior executive relationships with suppliers.

Suppliers need to have a fundamental belief that there is a real chance a client will be willing to make a change in order to justify the investment of their business development teams to pursue the opportunity. Pursuing complex portfolios can be an expensive proposition for suppliers. There is travel to sites and client presentations along with a typical RFP duration that lasts about 4–8 weeks and can continue for 6–9 months including a down-select and contract-negotiation process. Seasoned professionals know it is inappropriate to speak negatively about their suppliers, even if there is a tainted relationship that consistently fails to deliver results. Companies do not benefit from disparaging or negatively characterising their supplier. Sophisticated clients understand there are more constructive ways to convey their disappointment with messages that use positive language. Executives must thoughtfully choose words that send a clear, yet delicate, message, including the extent of improvement opportunities and operational enhancements that new suppliers could bring to their portfolios. How companies present this message may heavily influence whether a supplier chooses to pursue their opportunity or not. There is also a positive corollary from considerate messages by demonstrating how reasonable a company is being. When suppliers perceive a company as behaving fairly and transparently, there is a greater chance they will participate in the pursuit. Conversely, a dogmatic attitude will signal that a company may be an irrational client in the future.

Regional strategy

Next-generation companies with global and/or significantly large regional operations (such as >100 million square feet) must also consider supply chain diversity from the perspective of establishing systemic competition where possible. This usually takes the form of strategically awarding different regions or sub-regional segments to at least one other IFM supplier in order to maintain a constant supplier alternative should a need arise for termination and replacement. There are redundancy costs to consider, particularly with the suppliers' central teams and technology and the companies' governance resource requirements, but a number of companies have justified the cost of a multiple supplier strategy for the benefit of risk mitigation and higher performance from regional best in breed solutions. Figure 6 shows a stark difference observed in the Trascent report in the regional sourcing approach between the first and next-generation clients. A common question companies operating in multiple continents ask is: 'should I target a single global supplier and award?' The author's experience is that truly global deals are uncommon in the industry, regardless of whether it is a first or next-generation client. While there are many reasons for this — clients' organisational readiness, site locations, portfolio size, supplier consistency, specialised local needs or differences among the suppliers in presence and capability — a consistent theme across companies is the level of centralised organisational decision making and financial budget control. This is also where the similarities between IFM and other outsourced functions diverge as facility services are locally delivered. Other outsourced functional suppliers can provide the majority of IT, payroll and call-centre services from a centralised location that utilises low-cost labour.

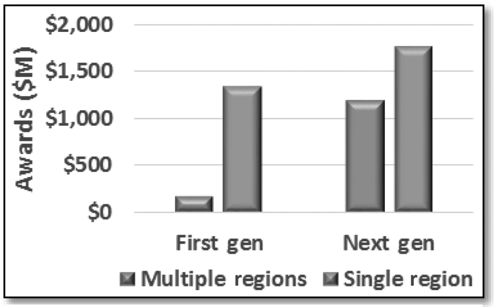

Figure 6 Regional scope award by generation in deals

MANAGING PERFORMANCE IN NEXT-GENERATION RELATIONSHIPS

A clear trend among next-generation outsourcing practitioners is to evolve the performance management regime from attempts to measure as much as possible to fewer, simpler and more targeted metrics. First-generation clients display a tendency and desire to extensively measure, which is primarily a symptom that they lack trust or at least feel the need to see traction from demonstrated results before they are confident enough to let go of tactical operations. Companies learn over time how to become more efficient through exception management with performance results and, as suppliers reliably hit targets, they realise they do not need to continue tracking so many metrics because it is no longer even worth the effort to read the reports. This recognition that metrics need to change in subsequent generations to smaller sets of more focused ones, which are better comprehensive measures of overall satisfaction and perceived value realised, is a mark of next-generation performance management maturity.

An emerging component from advancing metrics is how next-generation companies ordinarily shift from needing to measure basic tangible performance data to wanting a more sophisticated and comprehensive assessment of satisfaction, realised value and relationship quality. These are intangible measures, but ultimately represent the outcomes companies seek. As they mature in their practice, clients become increasingly less tolerant of substandard or even mediocre performance. Performance management and measurement of intangibles — trust, openness, communication, transparency and overall satisfaction among functional groups — often default to a survey.

Measuring intangible performance and, by extension, the true appraisal of realised value, largely still remains an indirect proxy assessment. This is analogous to medical tests that directly measure antibodies that infer a patient has a particular disease or condition. Bridging the gap between clients who know they are happy with the performance measurements and data indicating why they are happy remains difficult. Tangibles are easy — preventative maintenance compliance, mean time between failures, operational uptime and budget adherence are quantitative and tangible, thus making them comparatively easier to monitor and judge — whereas intangible measures tend to be subjective and occasionally even esoteric. Early and immature efforts are making their way into the IFM landscape with the potential to become a paradigm shift in how both companies and suppliers measure overall outsourcing performance. For example, Sodexo's 'Quality of Life' initiative uses a consistent survey instrument across all its clients. These approaches are likely to evolve as more companies become next-generation clients and seek to robustly measure end-user satisfaction.

Many people have seen some form of key performance indicator (KPI) scores that suggest high service performance, which completely contradict the actual climate and stakeholders' feelings about the relationship. Executive facilities leaders are faced with a 'green lights and red faces' syndrome when performance measurements are not aligned with delivery expectations. They periodically review 'green lights from metric presenters with red faces'. Also known as 'watermelon results' because the smooth, firm and green shells encase a mushy red core that is the reality inside the fruit, these KPIs actually undermine the performance management programme. There is a compounded negative effect from the combination of incorrectly measuring the wrong component and then covering up poor service with seemingly glowing scores. There is a shared culpability on this issue between the working teams of both clients and suppliers because they each share the responsibility to monitor the programme and accurately report results to their executive management teams.

These false positive measurements suggest operations are running smoothly while, intuitively, people know that things are not truly working well. When this happens, it then becomes time to change the metric, its target, the calculation method or some combination of all three. Some companies report a dichotomy whereby governance members fear harming the relationship by negatively scoring their suppliers with whom they work on a daily basis, but then are left with disappointing results that undermine the programme altogether.

INNOVATION

Receiving innovative IFM service delivery in many ways is analogous to attaining enlightenment. It is a destination to which most aspire but few rarely ever achieve. In a practical sense for IFM outsourcing, innovation is not really an effective goal because that implies it is a clearly defined objective with a measurable result. Truly defining innovation is difficult because of its subjectivity among those who assess whether they perceive benefit from innovation or not compared to tangible outcomes such as cost reduction. Nonetheless, next-generation clients expect some degree of innovation as they enter into subsequent contracts with the measurable outcome of increasing stakeholder satisfaction while reducing cost. So, what does innovation look like then?

First-generation companies receive 'innovative' benefits from IFM that essentially stem from practising basic management techniques: more effective staffing, better sourcing and category management and applying the experience of seasoned professionals to substantially inefficient operations. This is why first-generation deals frequently deliver savings rates of 10–20 per cent over five years and, in some cases, more. The economic law of diminishing returns becomes increasingly present as companies enter succeeding generations while well-managed supplier teams cleanly pick most of the 'low-hanging fruit' of cost-savings opportunities. The ability to deliver more value to a client in these situations becomes inherently more challenging and is something suppliers simply cannot do solely on their own. It requires a concerted effort from both parties with a willingness to improve by adopting practices that go beyond reducing staff or service levels. True innovation for the next-generation client is a bilateral programme without an end state where companies should expect to do just as much work as their suppliers.

Using a revised definition of increased satisfaction with reduced cost, next-generation clients can better position themselves on their journey in partnership with their IFM supplier. It fundamentally begins with a willingness to behave and operate differently and allow the supplier to take on more operational control provided there are clear boundaries and guidelines. Companies cannot just be willingly passive, they must take an active participative role in order to develop innovative ideas and drive change internally. The most satisfied clients with respect to innovation demonstrate a common theme of active and frequent engagement in a programme with their suppliers. These sophisticated companies have learned that suppliers cannot push innovation on them, but rather it is the product of a mutual vision where both parties provide resources and leadership. They support regular workshops to generate ideas and ensure regular participation at senior executive levels to maintain momentum.

Suppliers are well equipped to bring substantial ideas that produce innovative outcomes — from utilising smarter and better practices across accounts to using benchmark data to identify inefficiencies — which all contribute to innovation in workplace solutions. JLL recently acquired an asset management strategy company called Corrigo to further its technology innovation practices. Another example of implementing a highly effective measurement practice is to simply obtain energy usage data that a company has never even looked at before. Having these data, and then the ability to analyse them, enables companies to influence end-user consumption with awareness and could produce considerable cost-savings in an area that never received attention before. The result is people feel good about using less energy and invoices corroborate annual spend reductions in financial statements—this is what innovation looks like.

Clearly there is no single answer that applies to all companies as the innovation approach needs to be contextually specific and relevant to each company and must be simultaneously realistic for a supplier to deliver. Companies that seek to advance innovative practices can further benefit their efforts by breaking down various ways to make progress towards increasing stakeholder satisfaction. Demonstrating financial cost reductions is a reporting exercise (albeit often challenging), but defining the expectations that lead to increasing customer satisfaction requires more work. This could take the form of upgrading equipment or service reliability or reducing response time to resolve issues to improve the end-user experience. Technology and mobile device applications will increase in utility and presence just as they have done in almost every other aspect of modern life. Faster communication, status updates and issue resolution invariably work together to improve customer satisfaction. While it is yet to be part of the mainstream, the software and workflow exist in some IFM relationships whereby people can simply take a picture of an issue from their smartphones on an app that automatically creates a work-order ticket with all the relevant information. The user only has to take three steps: opening the app, taking the picture and uploading it.

INSIGHTS AND WISDOM FROM NEXT-GENERATION PIONEERS

The number of leading global companies pursuing IFM outsourcing continues to grow with a select group of 'elder statesmen' who pioneered initial outsourcing practices to develop the industry. These early adopters had to address a number of issues without the benefit of understanding how others approached and solved (or failed to solve) similar issues. Through this collective body of knowledge, future first and second-generation companies can leverage a number of tested practices to accelerate their implementation and prevent value leakage.

The most common questions companies ask centre around 'what are others doing in this space', while those who are further along the outsourcing journey often ask: 'what would we have done differently?' The answers to these questions demonstrate a number of primary and secondary themes that any company undertaking an IFM outsourcing initiative should consider. The specific context and unique issues will always be critical variables to include and thinking through the following thought lines will help to focus companies on their specific issues while concurrently ensuring they adopt established best practices.

PRIMARY CRITICAL SUCCESS FACTORS

There are several fundamental components which invariably can predict the success or failure of an outsourcing initiative. In many cases, companies should consider these as the 'entry fee' to embark on the outsourcing journey and, without these basic tenets in place, they are likely to face a difficult and protracted effort that may never deliver on its full potential.

Strong executive sponsorship and project leadership

Upfront project leadership design is vital to success or the initiative may well be doomed from the start.[9] Having the right leaders at the proper levels in place is a strong indicator of successful initiatives. A common thread for successful outsourcing initiatives is strong leadership at two levels. First, strong senior executive sponsorship drives significant departures from legacy operating systems and provides an outlet to overcome unreasonable resistance. Secondly, successful initiatives also have strong project leadership teams and management systems to maintain focus on holding people accountable and executing the strategy and project plan. These project team structures appropriately involve site level and functional stakeholders to get their support, input and perspectives on solutions and issues to address. Project leadership at the site level also supports ensuring suppliers' solutions have operational credibility and site engagement in place for future transition efforts.

Communication plans, control and timing

Communications always make it onto the list of critical success factors and for good reason. Within the IFM outsourcing space, this adage certainly holds true, provided however, that careful attention goes to the importance of timing, flow and quality of communications. Well-timed messages customised to the right audience serve to reduce risk and uncertainty, especially before such concerns manifest into lost productivity and employee turnover. Communications about the strategy and initial phase of releasing and RFP to market are quite different than those for contract announcement and its impact on transitioned employees. For example, hiding or denying that companies released an RFP to the market is impossible and fuels significant perception problems. Simply acknowledging the initiative with a message such that: 'we are evaluating operational options from the market and will follow up after concluding the analysis' can serve well to mitigate concerns.[10]

FINER FACTORS FOR FUTURE SUCCESS

Strong leadership and effective communications are candidly obvious, rarely effortless and absolutely required to arrive at a mutually beneficial IFM outsourcing contract that will foster a healthy relationship between companies and suppliers. It consumes significant effort to get from a proposed IFM initiative to finally signing a contract; by many measures, reaching this point is when the even harder work begins of implementing a new contract so that it indeed delivers the expected results in practice. Next-generation companies have gone through this transition at least once. Those entering their third or fourth generations frequently report they have stronger memories of their time and effort spent during transitions than they did of the entire sourcing process from strategy definition through to contract execution. From these experiences, the collective wisdom of what next-generation companies would have done differently offers several concepts to consider for those in earlier stages of the journey.

Transition, change management and training

Bringing large organisations through the outsourcing journey requires rigorous determination together with communication and education. The operational impact alone of transitioning a substantial scope of services from self-delivered model or from an incumbent supplier to a new successor can be daunting and presents a legitimate business disruption risk. Fortunately, IFM suppliers function quite well as an industry with dedicated resources with sole focus on continually managing client transitions. This also includes transitions from one supplier to another where, despite occasional superficial concerns from companies, the supplier industry performs relatively well to execute transitions with professionalism when one supplier wins business from another. It is not worth damaging a supplier's overall reputation in the industry just for bad feelings or an injured relationship with one client.

In addition to the structural transition for operational services, next-generation companies have learned how making (or missing) change management efforts could have a dramatic impact on their success. The value of broader contract training has emerged with companies spending significant time and effort to explain how the contract should function and what service levels and scope expectations internal customers should have. It is crucial that transition efforts start well and stakeholders on both sides receive the same messages regarding goals, priorities, timelines and who has what role in the respective organisations. While some aspects of the contract, such as termination or damages, are not appropriate for everyone or do not require training to effectively transition, others are essential topics for education. These include the financial pricing terms, cost treatment, performance management, change management and governance processes. The goal is to prepare people to support a seamless implementation with supporting tools to manage and control steady-state operations.

Despite most companies facing travel budget restrictions, there is clear recognition that the opportunity to meet one another in person and establish a basis for building positive relationships pays short and long-term dividends. Joint workshops are an effective means to accomplish this and help to crystallise the culture between companies and their suppliers. The benefit greatly improves implementation efforts when people hear each other's questions, concerns and examples or scenarios to better understand how to apply contract mechanics and logic. The desired outcome for such an event is when people feel engaged and part of an energised team, ultimately having a sense of ownership to make this complex relationship successful.

Invest in talent

Investing in talented resources is consistent with both suppliers and their clients and is particularly relevant to facilities services where people are doing the majority of work on site. It is also something that first-generation companies occasionally will contradict. They resist suppliers paying what they perceive to be high salaries, even if the wages are within market norms. While this hopefully does not give way to raising co-employment concerns, it does have the potential negative consequence of creating an antagonistic atmosphere where resentful employees seek to undermine the supplier. Now clearly this is not an endorsement for unreasonable hiring practices or overpaying salaries, but it does segue into the concept that the talented resources that present a strong cultural fit at the leadership level are among the best leading indicators for success. Next-generation companies, especially ones with strong budget guarantee provisions in their contracts, have learned to embrace enabling their suppliers to reasonably pay for top talent. Because it takes unique skills to operate facilities and manage an outsourced relationship, next-generation companies have seen examples where one strong and talented person often can be as productive as two or three less skilled resources. These companies also often report finding long-term value in supporting the supplier's staff to obtain quality, technical and cultural training to operate their facilities.

Next-generation companies also broadly know it is in their best interests to transfer top talent to suppliers. The most talented resources with highly marketable facilities management skills rarely have difficulty in finding employment opportunities and companies do not do anyone a favour by holding on to good people doing in scope service work. In fact, there are many examples of people who professionally and personally benefited from new opportunities to remain in the facilities industry after transferring to an IFM supplier. They often face a glass ceiling within their company because facilities leadership positions are limited and turnover is generally low. In a supplier's resource pool, they find increased upward mobility options because their skills are transferrable among clients and support the supplier's business with revenue delivery.

Governance is perpetual

Next-generation companies in healthy, productive relationships recognise their supplier's success or failure is mutually inclusive with their own success or failure. There is a clear interdependency between the two organisations that requires a common resolve to manage the relationship through an effective governance programme. Ensuring frequent communications happen both formally and informally is essential to governance. In practice, this looks like ensuring the right people address issues in a timely fashion, managing accountability and supporting constructive debates based on principles. Spending the effort to establish an open communications climate enables companies and their suppliers to 'look in the mirror' and simplify the complexity they frequently impose on themselves and each other. One often cited piece of advice is to organise governance meetings so the appropriate people are present who need to take an active role in managing the relationship and performance. Wallflowers are nice for decoration, but they do not belong in governance meetings. There can be a tendency to include periphery stakeholders, but the unintended consequence is that too many people in a meeting who merely sit at the table or along a wall with no active role actually stifle conversation. Both parties are likely to be reluctant to engage in healthy debate and discuss provocative topics.

The other basic and important component of effective governance after identifying the right people is to develop a long-term operational management system. This is more than simply having monthly meetings on calendars. It also includes setting regular process and preparation activities in place so reporting is on time, agendas are sent in advance and someone has clear responsibility to follow up on actions. These are indeed project management fundamentals, but the purpose here is that effective governance does not just happen because a contract document outlines roles and processes. It requires resources to actively manage the governance programme and take the initiative to ensure both parties meet their objectives.

Experienced companies take communications several steps beyond monthly performance reviews and quarterly steering committee updates. One variant is a 'collaboration forum' where cross-functional stakeholders meet to brainstorm and jointly solve challenges with specific problem statements, such as how to meet a new budget reduction target or how to improve a stakeholder satisfaction issue. A distinctive feature of this approach is to intentionally include people from various functional areas unrelated to the operational issue, thereby including different perspectives and assessing issues without a bias from having close familiarity with the problem.

Finally, just let go

Letting go is difficult, no matter the practice or situation. In most cases, it is the initial first step to moving on to a better place. This holds true with IFM outsourcing initiatives as most companies learn how to let go of managing tactical operations to suppliers and begin trusting suppliers through robust metrics rather than oppressive micromanagement. Outsourcing non-core activities is a frequent objective so a company's more senior resources can focus on strategic and higher impacting work that is closer to core operations. First-generation companies frequently demonstrate a tendency to focus on minutiae that do not have a real impact on broader goals. Next-generation companies, in contrast, learn how to unlock value from IFM outsourcing by enabling suppliers to optimise processes so they can concentrate on the big-picture strategy.

There is a balance to uphold to ensure that 'letting go' does not deteriorate into complacency or result in a behaviour of 'throwing it over the fence'. This means that both parties must empower people to resolve problems at operational levels and set appropriate boundaries within which they can make decisions to settle issues without escalation. There is a paradigm mind-set shift whereby company leaders must support shifting their retained staff from doing the work directly to expecting suppliers to deliver on service outcomes. Letting go of the responsibility to do the work while maintaining the accountability for service outcomes is difficult, but it is quite realistic and is a prerequisite for effectively running a next-generation IFM outsourcing practice.

CLOSING THOUGHTS

In a dynamically expanding industry, IFM outsourcing presents companies with numerous opportunities to realise value and improve their global operations. Private equity firms such as EQT and TPG have increased their investment interests in real estate and FM supplier businesses as an indication of future growth. Coupled with this is the observation that, once companies pursue an IFM strategy, they hardly ever return to a pre-outsourced model of managing the operational service delivery, which means that next-generation companies practising IFM outsourcing will only continue to grow as a community. The issues they face and the business requirements they demand will further drive market evolution and shape innovation in the supplier network and across peer companies.

REFERENCES

(1) Marcum, M. (2015) '2015 global integrated facilities management market activity report', Trascent Insight White Papers, December, available at: http://trascent.com/insights/white-papers/2015-global-integrated-facilities-management-market-activity-report (accessed 21st July, 2016).

(2) *Ibid*.

(3) (2015) 'Facility Management Market by Solution — Global Forecast to 2020'.

(4) ISS (2016).

(5) Marcum, ref. 1 above.

(6) *Ibid*.

(7) Kishan, R. and Fastovsky, T. (2014) 'Third-generation outsourcing: A framework for strategic decision making', Trascent Insight White Papers, October, available at: http://trascent.com/insights/white-papers/third-generation-outsourcing. (accessed 21st July, 2016)

(8) Marcum, ref. 1 above.

(9) Kishan, R. (2014) 'Six key predictors of outsourcing success in a maturing RE/FM outsourcing market', Trascent Insight White Papers, October, available at: http://trascent.com/insights/white-papers/six-key-predictors (accessed 21st July, 2016).

(10) *Ibid*.