

*Next Generation Corporate Real Estate
& Facilities Management (CRE/FM)*

Next Generation Sourcing Strategies that Deliver High-Performing CRE/ FM Supplier Relationships (And the Reasons Why)

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Over the last decade, the Corporate Real Estate and Facilities Management (CRE/FM) supplier market has undergone significant consolidation to expand delivery capabilities, service offerings and geographical reach. In other words, the market is considerably different today than the previous generation sourcing effort and requires a new approach. This next generation sourcing approach is differentiated along 5 key dimensions:

1. Collaborative Approach to Market
2. Advanced Commercial Models with Aligned Incentives
3. Redefined Performance Analytics
4. Technology
5. Supplier Governance & Location Specific Performance

This article will delve into these factors which are shaping the next generation sourcing strategies for corporations.

Collaborative Approach to Market

In today's highly consolidated market, next generation clients need to ensure sufficient competition and interest from non-incumbent suppliers. In a growing CRE/FM market with other opportunities, this is not always guaranteed, no matter how strong the brand. Competing suppliers are often skeptical of RFP's where there is a strong incumbent in place. Companies will have to take a far more collaborative approach to engaging with the

supplier market well before the RFP launch. And we don't mean issuing an RFI. In this pre-RFP engagement phase, a far more collaborative approach is warranted. The purpose of this collaboration is to ensure that clients understand current market conditions, potential solution alternatives and the supplier market understands key client drivers.

However, it is important to note that collaboration is not an end-goal unto itself. We have seen some sourcing approaches that make collaboration itself the objective. In our view, this is a mistake as the primary objective of any sourcing process should be shareholder value — the prime directive for any corporation. If other objectives cloud that focus, one may end up with overly orchestrated, workshop heavy, cumbersome and collaborative sourcing processes that

may bring supplier-client joy but few results to show for it. Typically, such initiatives will result in budget over-runs with lots of excuses as to why "in the name of partnership". In addition, clients have to be mindful that collaboration does not result in collusion and that the client teams do not breach their fiduciary duties to their own shareholders by putting the needs to the supplier shareholders first. Client managers work for their shareholders and do not work for supplier's shareholders. The goal of collaboration from our viewpoint is to create high-performing outsourcing relationships, not collaboration for collaboration's sake. According to Kevin Rang, Partner, Mayer Brown, "There are legal duties that each employee has to her employer in the United States. These legal duties require that the employee put the interests of their employer above the interests of third parties. Any activity, under the guise of collaboration or otherwise, that elevates the interests of a vendor over that of a person's employer, could be grounds for dismissal or worse yet, if the activity is alleged to involve fraud or improper financial benefits to the vendor, referral of the matter to the prosecutors office."



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Within sensible and lawful boundaries, collaboration becomes an essential ingredient for success. Pre-RFP collaboration can influence a supplier's decision to actually pursue the RFP opportunity. "Early engagement with clients is an increasingly important part of our pursuit selection criteria and process, especially prior to entering a competitive tender event", says Steve Quick, Chief Executive of Global Occupier Services at Cushman & Wakefield. "When we can directly assess a client's internal alignment and clarity of goals, we are much more likely to participate in an RFP."

Advanced Commercial Models with Aligned Incentives

No matter how collaborative and transparent, an advanced, aligned commercial model is a key requirement for success. In next generation sourcing, corporations have first-hand experience in understanding how well-intentioned but poorly conceived commercial incentives can generate the wrong behaviors in both client and supplier teams. These non-conductive behaviors can severely hamper the success of the initiative through commercial disputes (e.g. inability to agree to a baseline, scope exclusions, variable spend, etc.) and governance and delivery disputes (e.g. client teams impeding the supplier, low level of talent on account, turnover, etc.).

Next generation commercial models have to be fundamentally re-thought and re-structured to make balanced incentives that ultimately drive the right behavior. Key requirements are:

- True transparency (many companies achieve less than satisfactory transparency in first generation efforts)
- Balanced risk and reward for win-win behavior — the market today is far more prudent in risk taking
- Strong, precise commercial term definitions that avoid legacy disputes

According to John Forrest, Global & Americas CEO, Corporate Solutions at JLL, "Transformational objectives of CRE — transparency, digitization, employee experience, productivity, etc. — require new ways of partnering and engaging. Our experience clearly shows that contractual intent that drives the desired performance (operational excellence) for both clients and suppliers, strongly aligns the "how and why" of the way services are delivered. In my view, this is essential for high performing and enduring supplier relationships. We are wary of lop-sided models that have the potential to pit us squarely against the very clients we wish to serve."



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do not understand the client perspective, the reports will again underwhelm. Today, clients need to take a more commanding role in designing the analytics output, accessing data and driving analytics that matter. Central to this approach are:

- Data Warehousing
- Business Intelligence Analytics
- Performance Framework

Well-designed approaches can be effective even in a multiple-supplier model where best in class suppliers deliver services in different global regions.

According to Stuart Langdon, Global Facilities Director, Honeywell, who established a global performance analytics capability as part of Honeywell's Governance, “What data do our divisions want to see, and what value and output will the analytics drive is essential to define up front. It's not enough to see utilization metrics, it needs to link to upcoming transactions or workplace strategy decisions.”

The clear implication of this is that the decision and access rights around data, data ownership, access and responsibilities for analytics need to be far more clearly defined in the contract and the supplier governance process.

Technology

Technology and innovation are the center of most next generation sourcing initiatives. As economies around the world continue to grow and many countries enjoy low unemployment rates, the focus of outsourcing initiatives has shifted from cost reduction centric programs to workplace experience and service quality driven outsourcing contracts. This is because companies are trying to attract talent and a progressive and attractive workplace is increasingly linked to the brand image of the corporation. Technology is vital to an attractive and efficient workplace that drives

Redefined Performance Analytics

Almost without exception, in the CRE/FM industry, performance analytics have been a source of client frustration. Expecting brilliant reports based on real time data, companies were surprised to see performance reports were painfully slow to appear — data governance and quality was weak and reporting metrics were tactical which did not drive decision making. The ubiquitous “work orders closed” metrics could also drive the wrong behavior where work orders were indeed closed, but the work was never done right the first time.

Today, the industry is different, and suppliers have far stronger data governance, data and business analytics than ever before. However, if suppliers

employee experience. Next generation outsourcing initiatives not only need to define technology innovation within their contracts, they also need to ensure that the technology benefits they are seeking are effectively implemented during governance. In today's next generation sourcing initiatives, the sourcing process needs to identify technology inputs, outputs as well as the business terms regarding the protection and use of technology. The good news is that workplaces today are allowing for a broad range of technology applications — from smart buildings that link to user mobile phones for services, to sensors that optimize service delivery, to facial recognition technology in diverse areas, such as cafeteria access, etc.

Supplier Governance & Location Specific Performance

Supplier Governance is a vital component of success, and there are 4 key factors that client and supplier teams must master and effectively run in order to produce high-performing CRE/FM outsourcing partnerships. These are financial management, performance management, escalation, and stakeholder management. Of course, central to an effective global supplier governance program is the competency of the individuals fulfilling key governance roles.

Now, the ultimate test for any high-performing outsourcing relationship is location specific high performance as measured by stakeholder satisfaction, proactive performance, ownership of site issues, etc. Site specific performance is what clients ultimately seek in high-performing supplier relationships. While its necessary to have a well-designed contract and collaborative process that enables cultural fit and optimizes the solution, it is, by itself, insufficient to ensure location specific supplier performance. The CRE/FM supplier market maturity varies by region, and it is vital that the sourcing process incorporate specific techniques to ensure clients will be able to achieve location specific high performance by suppliers. Sometimes the impediments may well be on the client side and other times it may be a lack of a supplier's presence and maturity in a particular location. Next generation sourcing initiatives need to incorporate methodologies that drive location specific performance improvements.

In sum, next generation sourcing needs to take a different approach to market characterized by five key factors. These factors need to be balanced and should be linked to reinforce the concept of collaborative, high-performing CRE/FM outsourcing relationships. Companies may need to align some of these factors to region specific market maturity as supplier market maturity varies by region — NA, EMEA, LatAm, and APAC. But the fundamental structure and approach remains consistent. Unless clients take a stock and assessment of how their legacy approach needs to be shifted to be aligned with current market conditions, they are likely to repeat the mistakes of the past.



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ABOUT THE AUTHORS



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Monte Marcum is a Managing Director at Trascient with almost 20 years of strategic sourcing and global supply chain management experience. He brings a broad, innovative perspective to providing advice on outsourced operations and service delivery strategy development.

His specific areas of facilities management expertise include leading complex contract negotiations, sourcing strategies & processes, organizational design, and competitive benchmarking. Throughout his career, he led efforts to source and negotiate more than \$7 billion in total contract value for real estate and facilities management with another \$1 billion across other services.



Rakesh Kishan, Managing Principal, Trascient

Rakesh Kishan is a founding partner of Trascient Management Consulting, LLC and the Managing Principal for the Americas and EMEA region. He advises blue-chip companies on global RE/FM outsourcing initiatives to increase efficiency in FM through best practices.

Mr. Kishan is an expert in the growing market for outsourced FM services. He has spearheaded outsourcing initiatives on a global scale and within diverse portfolios and has advised major corporations in virtually all aspects of the entire outsourcing life-cycle: from structuring global Facilities Management outsourcing initiatives, to optimizing governance structures and processes for sustained improvements, and to implementing interventions to renew troubled relationships. Mr. Kishan has pioneered innovative approaches to structuring contract pricing to foster continued supplier innovation across each stage of the contract life-span.

ABOUT TRASCENT

Trascent, 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. Trascent Conferences are attended by CRE/FM and business leaders and held in North America, Europe and Asia Pacific.

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