

March

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The Hidden Secret of Sustainable FM Partnerships

Selecting an Expert (Trusted Advisor) vs. a Supplier

By Glenn Hodge

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March 2018

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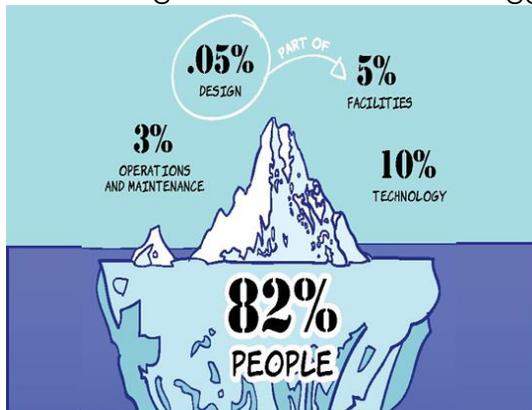
Glenn has over 30 years' experience in engineering, finance, operations, and sales. He excels in developing value propositions for both clients and his company through consultative sales. He combines organizational and process management, relationship building, and solution development skills to execute and deliver projects, programs, and key strategic initiatives while building high performing teams. Glenn applies a strong engineering/ technical background with business development expertise to expertly manage multi-million dollar and multiple service line projects. His presentations inform and persuade employees, clients, and senior leadership across operational and technical organizations, building stakeholder buy-in and creating the right environment for project go-live and handover

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The Hidden Secret of Sustainable FM Partnerships

Selecting an Expert (Trusted Advisor) vs. a Supplier

In today's war for top talent, companies are looking for ways to attract and retain the best employees. They are doing this by providing enriched workplace experiences that make their company a great place to work and encourage creativity, collaboration and enhanced productivity. One of the key focus areas for these companies to investigate is within their facilities services and how those services are delivered. In the article, "It Is Time To Talk Value," it states, "Reducing operating expenses is not the only benefit of outsourcing. It's not even the biggest benefit. Even small increases in employee



productivity can contribute significantly more to the company's bottom line than big improvements in occupancy costs." (Nagarajan, 2016) This is illustrated by the illustration, "The Tip of the Iceberg." (Brill & Weidemann, 2001) From this, we see when we focus on reducing operations and maintenance costs, we are focusing on making a change to 3% of the lifecycle cost of the building versus making an impact on people which is 87% of the spend.

To tap into improvements in the workplace experience, the client should look to outsource

facility services to a service provider that has the expertise to create great workplace experiences. This will accomplish the goal of driving value through improved facility services. Ultimately the provider must become a partner and trusted advisor to guide the client toward the best value combination of service to enhance the workplace environment and meet corporate cost goals.

Value vs. Lower Cost

'Value' is broader than simple lower cost. Addressing cost reductions alone can save money up front, but potentially places at risk some key factors regarding the quality of the workplace experience, service flexibility, and compliance. We see lower cost as just one outcome in the larger value equation. A better definition of value is aimed at delivering a much broader spectrum of beneficial outcomes for companies, as outlined below.

- Workplaces that enhance employee engagement
- Attention and care for employees as service users, supporting their productivity and driving higher satisfaction levels
- Support for company talent retention and recruitment strategies
- Commitment to understanding and directly supporting their business operations, efficiency and growth
- Cost leadership with a continuous strategy for cost control

- Investment in innovation, its implementation, and optimization as it enhances the workplace experience
- Continuous improvement to maintain a leading-edge service
- Providing the company with a competitive edge in the marketplace
- Liberating the company to concentrate on its core product/service

Current procurement practices, though well-intentioned and applicable to commodities, often lead to a loss in true value from a sustainable FM Partnership.

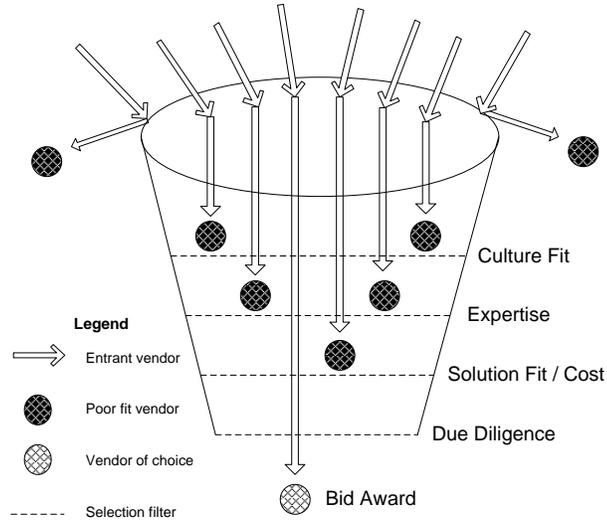
The Search for Value

The task of searching for the right provider can become an uncertain, lengthy and resource-draining process if a well-organized strategy is not put in place at the outset. A traditional approach to the process sees the company developing and issuing a Request for Proposal (RFP) to the facilities services marketplace and receiving responses from several service providers. The traditional RFP process treats facility services like a commodity where meeting a set specification at the lowest cost is the goal. It typically does not adequately place value on innovation and service enhancements, the very things that will deliver better workplace experiences. This approach contains weaknesses primary of which is that it emphasizes low cost over value creation. It also reduces the importance of finding a true expert to deliver the services as the "expert criteria" is not ranked as highly as cost reduction. The solution to ensuring high performance of procuring services is simple: utilize expertise (Kashiwagi, 2017).

In certain mountainous regions, climbers rely heavily on Sherpas that serve as their guides and expert mountaineers. As companies begin looking to enhance the workplace experience they must rely on experts in service delivery to be their Sherpas on the journey. As they look for service providers to be their Sherpas, a better sourcing process must be utilized. The following is a recommended strategy for conducting a more effective search and evaluation, to provide more certainty that the best fit for the company is selected.

The search has six steps of which four are filters "filters" that will allow the company to determine the service provider who is the best fit. There is a preparatory step followed by steps 2-5 which are filters that lead to the final step, the bid award.

1. Determine Best Sourcing Model
2. Culture Fit
3. Expertise
4. Solution Fit / Cost
5. Due Diligence
6. Bid Award



1. Determine Best Sourcing Model

Before the process begins, the client must take time to determine the right sourcing model for their situation. The basic steps that must be taken to determine the appropriate sourcing model is based on two components: the most appropriate relationship model and the most appropriate economic model. (Vitasek, Keith, Manrodt, & Kling, 2015) The four Business Model steps are:

1. Select the defined spend category/categories
2. Determine the best relationship model for what is being sourced
3. Determine the best economic model for what is being sourced
4. Develop a consensus internally for what the best Sourcing Business Model is right for you

The Vested research suggests that following Sourcing Business Model Matrix as a tool to help with this. (Keith, Vitasek, Manrodt, & Kling, 2017)

		Relationship/Contract Model		
		Transactional Contract (Market)	Relational Contract (Hybrid)	Investment (Vertical Integration / Hierarchy)
Economic Model	Outcome-Based <i>Economics tied to Boundary Spanning/Business Outcomes</i>	Mismatch – Not a Viable Strategy	Vested	Equity Partner (e.g. Joint Venture) or
	Output-Based (Performance-Based / Managed Services) <i>Economics tied to Supplier Output</i>	Mismatch – Not a Viable Strategy	Performance-Based (Managed Services) Agreement	
	Transaction-Based <i>Economics tied to activities drive behavior</i>	Basic Provider Approved Provider	Preferred Provider	Shared Services

2. Culture Fit

The culture fit filter utilizes interviews to determine how well the service provider understands the needs of the company. The provider should also be prepared to explain how they propose to deliver the services and why they believe that approach is appropriate. There should be a clear demonstration that the two company cultures would integrate seamlessly. Grant Thornton identified in the Outsourcing Report that 88% of respondents felt communication and 87% of the respondents felt the quality of the relationship between client and provider were the two biggest keys to a successful outsourcing experience. (McBean, Pons, Atti, George, & Tsujioka, 2015) In the early stages of the process, meeting with the provider is critical. During these meetings, the client should be evaluating how they communicate, what's it like to work with the provider, are they seeking to understand or are they looking to sell or tell, etc. The goal of these meetings for the client is to evaluate which companies are easy to work with, will act as an advisor to help them in the procurement and delivery of the services and can a long-term partnership be formed.

3. Expertise Filter

During the expertise filter step, the goal is to identify the providers that are experts in the industry and with the services in scope. When looking for the expert, you should be searching for the provider that will help you to see the risks and mitigate those risks. An example of this is the provider that evaluates your procurement process for the services in scope and identifies the shortcomings and offers alternatives. That might be in the form of showing clear contradictions in the scope documents or missing data, and then they suggest ways to either clarify or gather the data. This might be in the form of offering templates to use.

Additionally, the client should ask the providers to discuss different pricing models and the pros and cons of each model. The client should be looking to see if the provider is addressing their stated needs.

Another way to evaluate the provider's expertise is to ask them to identify the risks that you as the client are facing with outsourcing the services in scope and provide how they would mitigate these risks. At this point, you should be looking at their people, processes, and systems to deliver the services while minimizing the risk to you as the client.

During this step in the process, the client should not be overly prescriptive to allow the providers the opportunity to display their leadership and expertise. After all, the client is looking for the provider that is going to be their Sherpa to provide expertise and leadership for a successful outsourcing engagement. This filter enables the company to now down-select to two providers at most.

4. Solution Fit and Cost Filter

The solution fit and cost filter is the step where the benefits of the previous filters are realized. The company should provide full scope documentation and current cost data to the Providers. The providers will analyze this data and present their proposed costing model to the company.

This filter is a time-intensive process, which entails a methodical assessment of the providers' detailed service solutions and costing models. Only having to compare two models allows the company to allocate its resources efficiently to determine the best fit with their internal goals. The solution and cost filter allow the company to select one preferred provider.

This may be the most important value the Sherpa delivers; many clients have lost key information about their buildings and may struggle to deliver the full scope and cost data to the potential providers. When in doubt, potential providers may not understand the scope, bid lower than they should and create a shaky foundation for future success.

5. Due Diligence Filter

At this stage, there is only one provider left. The company has assessed that this vendor is a strong fit culturally, is an expert in the services being provided, and has a desirable solution and costing model. At this point in the process, it is time for final due diligence to be completed to check the service provider's references, financials, transition process, etc. If the company and the vendor cannot agree, the company will pass and re-evaluate which provider to select. If an agreement is reached, the contract is awarded to the vendor.

Simultaneously to due diligence, it is time to negotiate the terms and conditions of the contract. A Master Service Agreement (MSA) should be implemented with the core requirements for a regional or global deal. Local Service Agreements (LSA) can then be negotiated at each primary site to specify the site-specific scope of work and legal requirements for each location.

It is imperative that the contract type reflects the type of services being procured and the desired outcomes. The selected contract type must be reviewed with the provider, and there must be an agreement that the contract mechanism will deliver the desired results. Both the client and provider must mutually commit to the success of the project based on the on the due diligence and selected contact mechanism.

6. Bid Award

After completing the final due diligence filter, the bid is awarded to the chosen provider/vendor. The timeline from award to contract is shorter due to the pre-work which starts at the due diligence filter step.

Following Bid Award, the transition period begins, and the company is well on its way to achieving the value goals set out at the beginning of the process.

Outcomes

The client and provider will have been able to:

- Create a partnership relationship through the process
- Collaboratively develop the desired solution, which is the right fit for the company's needs
- Reduce the resource time and inputs needed to develop the right solution to meet the company's needs, by using a better-focused approach to identify the right partner for the new service
- Shorten the timeline to agree on the solution through the collaborative process

A Recommended Model – Guaranteed Maximum Price (GMP)

With a complex scope of services, a model that might be used is a **Guaranteed Maximum Price (GMP)** model from the start of the contract, for the following reasons:

- Cost certainty is provided for The Client
- The model can include incentives which drive further savings (e.g., gain share between the Client and Provider)
- It supports the strategy of service consolidation, quality, high performance, self-delivery by the provider, training programs for the multi-skilling of FM staff, high productivity levels, and optimization of technology solutions
- It fits with an effective performance management model, linking KPIs and metrics to the contract payment mechanism
- It forms a driver for service innovation
- It shares risk between the service the Client and the Provider

This model would provide The Client with both cost savings and cost certainty.

- Guaranteed Maximum Price (GMP) for cost certainty
- Contract term of 5 years, augmented with two-year extensions based on performance
- Fixed management fee for the contract term, with controllable pass-through costs
- A portion of the management fee can be agreed to be at risk when balanced with an opportunity to receive bonuses for exceeding contract expectations
- Additional savings (in addition to the guaranteed savings):
 - Gain Share 50/50

Value through Vested Partnership

Another example of the models that can be used to deliver real and sustainable value for companies through FM is the vested partnership. It is understood that while outsourcing provides benefits and opportunities for companies, it is also a major change to the way facility services are delivered to the sites. Confidence in undertaking this change relies on some factors, one of which is that the provider is a committed business partner, focused on the success of the company's business and willing to 'own' FM risks and ensured that clients operations are maintained and enhanced. To produce the best possible outsourcing solution for the company requires the right foundation, and a vested partnership which is aimed at creating a highly collaborative business model will enable a true win-win relationship. Both parties are focused on shared values and goals to create mutual benefits through innovation, service excellence, reduced cost and added value. Shared core values, partnership commitment, a flexible and responsive model rather than a contractual attitude, and a long-term relationship aligned to the company's specific needs offers a strong foundation in designing and developing the right FM solution.

At a governance level, and cascading through the organization, shared values and goals create a contract that is truly beneficial to both parties. It enables the development of a deep understanding and alignment to the company's objectives, business needs, and operational functions so that the contract delivers the right outcomes and excellent results for both organizations.

For example, KPIs are focused on outcomes for service users and company business operations, rather than FM inputs alone. As well as assuring compliance, it focuses on improving the service user experience by simplifying service access and personalizing service delivery.

Vested partnerships are a good way to bring 'value' to life through mutually beneficial business objectives and commitment to each other's success. It provides the right platform for long-term value. This is the beginning of a partnership that should unlock the hidden value from a successful FM outsourcing relationship.

Value for the Long Term - ensuring the Relationship and Model are Sustainable

To go on and deliver long-term value over an extended timeframe requires appropriate structures and behaviors to be in place and proactively maintained:

- Vision – shared and aligned values, goals, and culture.
- Transformation plan – a joint plan for change, focused on the company's definition of value.
- Commercial model – to support and drive the focus on delivering the right outcomes which fulfill the company's aims.
- Joint governance – at all levels, to ensure communication, collaboration and joint problem-solving.
- FM expertise – a provider with the capacity and commitment to continue investing in innovative solutions.

- Flexibility – forward visibility of the company's strategy and adapting the FM service to be agile and scalable.
- Transparency – leveraging and sharing Big Data, so facts drive decisions.
- Openness – an honest working relationship which creates trust.

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