The purpose of this paper is to examine the value proposition for mid- to large organizations for entering into an Integrated Facility Management (IFM) partnership and propose evaluation criteria for these contracts. Because the typical organization that adopts IFM is relatively large in size and complexity (IFM service providers tend to only consider those that offer extensive scope to manage in terms of some combination of spend, space, or sites), such deals including the associated contractual agreement are always customized, so in the end the value proposition depends upon the willingness of the organization to let go of significant responsibilities with some measure of risk vis-a-vis the level of oversight to ensure accountability. However the deal is structured, vital are a tangible metrics platform and periodic stakeholder assessment for both parties to validate the true value of the IFM partnership. While IFM is a promising concept that is increasingly being adopted by major global companies (see Figure 1), it remains to be seen how second tier suppliers, effectively disintermediated, will react. In addition, while IFM has been very successful in first and second generation outsourcing, will it prevail for corporations as the preferred model in the third and fourth generation? Will the model spawn a new set of IFM competitors, or will alternatives evolve; these will be two central questions watched closely by the $150 Billion U.S. dollar corporate IFM outsourcing industry as outlined in Figure 1 (UMS Advisory).

Keywords: integrated facility management, service provision, outsourcing, value

Companies Consolidating FM Spend Are Selecting IFM Partners As Primary Suppliers

Figure 1: Companies with IFM partners

INTRODUCTION

With the feeble and unpredictable global economy, major businesses are looking for extraordinary ways to innovate while saving operating costs. Outsourcing facility management functions is the norm, albeit one that has evolved over the past 30 years. What has emerged over the past decade is a breakthrough in outsourcing strategy, with the integrator model. Integrating the management of facilities is more than the next iteration of traditional outsourcing i.e., bundling services to achieve economies of scale. Instead, moving to an integrator model of outsourcing concentrates the management of the sundry tactical elements of facility operations...
and services under an expert manager, specifically, a service provider with the core mission and technical competencies of facility management. This differs from earlier “integrated facilities management models” such as those limited to maintenance management, performance and risk management and energy and operations management models proposed for healthcare by Shoet and Lavey or computer integrated facility management in the late 1990’s and early 2000’s (Yu, 2000; Wang, 2002; Bröchner, 2003; Shen, 2010).

The definition used for Integrated Facility Management (IFM) used within this paper is that of integration of all property and service (non-core services) operations within the built environment. Similar definitions have been put forth as “total facility management (De Toni & Nenino, 2009) but have more recently been characterized as IFM. The integration of property, operations and maintenance, along with office administration is also not a new topic (Kincaid, 1994) but has gained strong acceptance over the last several years as more mid- and large-sized organizations continue to drive efficiencies, reductions in cost and outsourcing of non-core functions to attain these goals. Other goals to shift from complex specifications in the outsourcing process for many services has moved to performance-based contracts where providers are given incentives to innovate and provide increased value along with reduced costs (Kashiwagi, 2010). In a performance-based contract with the service provider, the client organization monitors the costs, quality, and service levels through key performance indicators. Under this arrangement, the client should be free to focus on aligning FM strategy with the overarching goals of the enterprise. This has been consistently reported as a key metric for effective facility management performance measurement (IFMA Trend Reports).

ESTABLISHING THE COMPELLING BUSINESS CASE

The prerequisites to establishing a business case for IFM are introspection of the need to do so, the potential value, and the risks. Does a high-performing FM organization need to consider IFM as a competitive requirement? The assumption in any organization is that any business needs to take careful stock of its cost centers, and FM is typically considered a counterweight to the profit centers (although an argument can be made that progressive FM practices will increase productivity and effectiveness of the profit centers). Given the inexorable advance of integrated FM outsourcing to the next generation of delivery models, it behooves the business to look to the marketplace for comparative assessment against its existing conventional service delivery model. To ensure an assessment without bias, the business should consider a review by a third party with the capability to assess FM service delivery and financial performance. This assessment may point toward the need to develop a business case for adopting IFM in one of its variant forms.

One major healthcare company structured its business case around the following objectives:

1. Drive 10 – 15% cost reduction from the total FM spend over a 5 year period. The reductions were expected from consolidating the disparate supplier base; in this case, the base consisted of over 2,000 suppliers. Many sites individually sourced to the same suppliers, but without benefit of leveraged contracting. Further reductions were expected from refining service level specifications and attaining process efficiencies.
2. Establish operational consistency across all sites in the portfolio. There were few common standards among the sites, such as in FM technology, work control, or regulatory compliance procedures
3. Establish a communications and collaboration network among the FM groups across the portfolio. There was limited sharing of best practices from site to site, especially with multiple business units involved.
4. Devise formal service level agreements and metrics to unmask performance constraints, reduce risks, and drive improvements. There was inconsistent satisfaction among customers in the lines of business, in part because measurements were vague or non-existent.
5. Attain optimal balance between internal and external management of FM services. There was a diverse (i.e., inconsistent) approach to managing functions, ranging from self-performance to consigning suppliers to manage isolated or bundled services.

This company considered its current versus desired state in constructing its objective to integrate the management of FM (see Figure 2).
Figure 2 Performance-Based Supplier Relationship Model

Unstated, but perhaps an underlying objective is to shift the focus of FM leaders toward a reshaped core competency, one that is focused on setting strategy. The FM and Corporate Real Estate functions are more important than ever as businesses realize the strategic advantage of FM/CRE alignment to enterprise goals. The FM leader is often encumbered with tactical responsibilities that distract from setting strategy, especially as business reinvents and sheds products and services, engages in acquisitions and divestitures, and expands geographical reach around the globe.

The shift from tactical to strategic is enabled with the implementation of IFM and as shown in Figure 3 from Tim Tourville, Managing Director, North America at Mace Ltd., and graphically displays the shift from operational focus at 70% to a reduced 5% with implementation of outsourced IFM. This allows in-house facility management to focus half their value on strategic initiatives and relationship management with their internal customers/clients. This rebalancing is the critical improvement that IFM provides.

Figure 3. Shift from tactical to strategic focus with IFM

NEED
In conjunction with setting the primary objectives of the business case, the evaluation team determines the scope of services to be managed. This is a vital stage as the team begins the dialogue of whether it seeks a transformative or incremental approach. One may assume the former is the obvious choice, but it could collapse into failure if opposed by stakeholders who lack an appetite for risk, subsequently neutralized by those who were overlooked during the campaign for change, or even undermined by those directly impacted.

VALUE
Drivers to determining value
Once the scope of services is determined, the baseline of associated expenses can be established. The baseline is the linchpin for developing budgets incorporating savings guarantees, so it must be ascertained with utmost accuracy and full engagement of the client and service provider’s accountants. If not done with due diligence, it may resurface as a dispute requiring intervention by governance authorities.
For each service in scope, there are improvement levers that can be applied:

- **Strategic sourcing** – Increase purchasing power through preferred supplier partnerships, and economies of scale through pooling the spend across all sites.
- **Best practices sharing** – Improve processes to reduce labor and increase productivity.
- **Bundling** – Optimize the delivery model of self-perform versus subcontract.
- **Competition** – Market pressures drive pricing and innovation, and performance-based compensation for provider and suppliers induces an environment focused on value creation.

![Diagram of typical services in scope alongside potential improvement levers]

A premise of IFM is scalability to adjust with the client's business. It is not intended to be a stagnant model, but functions best with expanded services, scope, asset classes, and geographical reach. With such expansion, the service provider will be motivated to invest more in people, technology, and value creation.

**GAUGING INCLINATION FOR CHANGE AGAINST INHERENT RISK FACTORS**

A careful assessment of risks and the openness for change is needed to lead to a decision on which variation of IFM model to adopt, addressed later in the paper. There are a plethora of risks to consider that are unique to the business and can influence the direction of change. Specifically, here are some risk factors to consider:

- **Complexity and maturity of existing site FM organizations to function in synergy.** If there are organizational silos and/or misalignment, expecting the integrator to herd the defragmented client organizational elements into a unit will sidetrack the integrator’s primary attention for trying to do the same with the supplier base.

- **Constraints in transferring knowledge or data.** Some businesses have validated systems that cannot easily be co-opted by the provider. Or there may be resistance to transfer what is considered proprietary information.

- **Client internal customers, especially those monitored by regulatory authorities, may be dead set opposed to any disruption of business during the tenuous phase of transition of FM services to the integrator.** This may call for an extended timeline or incremental change strategy.

- **Client culture disinclined to change.** Reluctance to fully trust the provider as evidenced in the client retaining staff redundant to the provider’s staff for the purpose of oversight. This may be the single most important inhibitor for clients unwilling to risk a “trust, but verify” approach to the partnership with the provider, as once the retained (also known as “stayback”) staffing is set at the beginning of the IFM partnership, it is very difficult for the client to eliminate such staff as the opportunity to transfer to the provider has likely passed.

- **Exit Strategy: What if it does not work?** Can the relationship be expediently untangled after termination? Termination must not be regarded as an unthinkable event.
PATHWAY TO SUCCESS

There are ways to circumvent or minimize risk. According to Rakesh Kishan, Principal of UMS Advisory (personal communication, November, 12, 2011), there are six predictors of success in outsourcing to an integrator:

1. Strong sponsorship and project leadership – Careful design of the project team and recruitment of team members are essential. There should be alchemy of attributes for the team to suppress biases in favor of sacrifice for transformation. The team must be cross-functional yet sized to enable agility in positioning options, and members nominated who are discreet in handling matters of sensitivity, oriented to risk in pursuit of impactful change, and who have access to and credibility with the executive committee sponsors on decisions.

Nearly as important, is to not relegate peripheral stakeholders as an afterthought for ad hoc participation. Disregarding in the early stages of planning the managers of services on the fringe of FM control (e.g. managers of hazardous waste, laboratory services, calibrations) or financial analysts, will result in setbacks during the critical path of transition. And last but not least, one or more sponsors at or near the chief executive level is indispensable to the success of the project. To assure success, the sponsor(s) must be engaged at the start and throughout to steer past the temptation to hover at status quo.

2. Align Request for Proposal (RFP) strategy to cultural readiness and current operating model – The RFP is the linchpin to staging the change to the IFM model. A perfunctory RFP will quickly spell trouble if it does not reconcile differences among the respective cultures and operating models of the participating client sites, and it will elicit ambiguous supplier responses and muddle the process of review. Significant time invested in developing the RFP will lay the groundwork for a robust agreement between the counterparties, and yield dividends to offset various hurdles encountered during transition.

3. Time and control the flow of HR and Communications support – The prospect of changing to the IFM model will produce anxiety or resistance manifested in various ways, so customizing the communications in proportion to the audience (i.e., FM employees, internal stakeholders, and suppliers) and the particular culture of the sites is vital. Especially important is close collaboration with HR in dealing with the concerns of employees directly affected by the change.

Conveying a one-size fits all messaging approach will lessen the credibility of the leaders, so creative use of various media can help ensure connectivity. Also, ongoing communications of the IFM “brand” is advantageous, along with recurrent training on details of the master contract and site service level agreements, especially in assimilating new players and stakeholders.

4. Manage to the current market environment – The market of integrators and second tier suppliers is continually and rapidly evolving. Large FM/CRE firms are vying for industry’s attention as they position their respective model (typically, managing agent, or some variation of self-performance in soft or hard services) as optimal. Likewise, second tier suppliers are aligning themselves with certain major integrators, even as the same suppliers consider whether to become integrators, potentially complicating existing relationships. Successful integrators are staking out market segments, while joint ventures come and go, and global agreements are developing. With the state of flux in the IFM arena, businesses need to stay abreast of the current market environment in order to craft the best deal.

5. Create policies to support the initiative – Existing client policies and operating procedures in HR, procurement, and quality can hamper transition, which become substantially more complicated when individual sites have their own policies and procedures that take precedence. Therefore, it is essential to compile and review these documents across the portfolio so the integrator can improvise a framework for compliance. Also, because in most cases, there may be a relatively large transfer of employees from client to provider, it is especially important that HR policies are conducive to affecting such transfers by removing barriers and even creating incentives such as keeping employees whole in benefits and years of service, offering severance to offset disparity in compensation, etc. Providers should also be aware there are even contractual restrictions with second tier suppliers to prevent poaching of staff, so policies at this level need to be examined.

6. Build a transparent, performance-based contract as the centerpiece of your governance – Large scale outsourcing initiatives involving multiple sites, business units, and asset classes, require an unconventional master service agreement, one in which the client and service provider enter into a transparent partnership based on respective due diligence in terms of performance and oversight. Unlike fixed fee or cost plus contracts, a performance-based contract has an incentive structure in which supplier profits are tied to a matrix of key performance indicators, glide path savings, and gain-sharing. All routine expenses associated with labor, materials, and contracted services are bundled as pass-through to the client.
Over the past decade, the market among FM service providers has undergone a tectonic shift toward consolidation. Amid intense competition, service providers are offering aggressive pricing terms while sustaining or even improving service levels as competencies sharply develop. So, a business may discover its current method of FM service delivery, typically some mix of self-performance and selective or bundled outsourcing, may not be able to rival the potency of integration of FM services managed by a single provider. And the IFM model propagates i.e., the more it expands, the more prevalent and capable the providers become, leading to greater investments in technology and best practices, and so on.

As noted earlier, the mix of IFM service providers and the second tier of suppliers is dynamic. As depicted in Figure 4, there are multiple options in application of the IFM model, including whether to implement it in whole or in part depending upon the scope. Usually, a real estate services firm will act as a managing agent, although some have developed technical expertise in self-performing in areas such as maintenance, janitorial, and project management. Selection of firms with core expertise in the hard services of maintenance and engineering may be ideal for certain high technology or regulated client businesses, while providers with core expertise in the soft services may be better suited to clients with a focus on the corporate service functions. With that said, all IFM service providers are becoming more homogenous as they broaden their capabilities to appeal across industry sectors.

The Figure 4 list of service providers is not intended to be a comprehensive list, as there are many more vying for segments of the market. As noted in item 4 of the predictors of success above, client businesses should manage to the current market, and start with a broad swath of potential providers. The project team charged with determining the pathway for implementation of IFM should objectively work to streamline the initial slate of providers responding to the RFP. Initial down-select criteria may include:

1. Assurance of supply – Do they have the bandwidth to manage the complexity of a large-scale business?
2. Service – Are they focused on cost reduction at the sacrifice of superior service?
3. Quality – Do they have the reputation to excel?
4. Innovation – Are they a pacesetter in change and continuous improvement?
5. Regulatory – Do they have the requisite experience to function in a regulated environment?
6. Cost – What is the best combination of fee, guaranteed savings, transition, overhead, and related costs?

Some client businesses even engage with the bidders at certain points in the RFP process, sometimes know as “yellow pad sessions” as part of a dialogue to ensure clarity of requirements and to refine the RFP before final proposals are submitted. When the potential service providers are narrowed down to the short list, then final evaluation criteria become more explicit. Here is a sample set of criteria from one client business, devising an associated intricate scorecard to ensure objectivity:
1. Financial value
   a. Year over year savings
   b. Guarantees/risk mitigation
   c. Performance incentive structure
   d. Cost of doing business

2. Ability to be a good partner
   a. Cultural fit
   b. Alignment with contractual terms/ability to reach agreement quickly

3. Operational solution/capability
   a. Reference visits/feedback
   b. Confidence in operationalizing the model

Of these criteria, the most foundational is for the IFM service provider to operationalize the model for the client, balancing deliberation with speed (“make haste, slowly”). Figure 5 depicts the major phases, beginning with pre-transition consisting of due diligence visits to each of the client sites involved, and development of the HR and communications strategy. The transition phase is usually 60 – 90 days in length, often managed by a special IFM service provider team of experts whose sole function is to manage transitions for hand-off at “go-live” to their operations counterparts to implement and manage going forward. Then the essence of provider and client partnership is manifested in the governance of the model, ensuring financial, service, and innovation goals are attained through transformation.

And finally, with the advent of IFM, niche consultancies in the field have emerged, with a spectrum of expertise in FM, sourcing, contract law, and finance. Is a consultant advantageous or necessary for guiding the client business through the RFP/sourcing process and beyond, such as in setting up the governance model? This decision largely depends upon the availability of internal resources to dedicate, keeping in mind that for large scale companies, the process from business case to transition may take 12 – 18 months. A consultant with the acumen and marketplace knowledge can help the client stay on track through the regimen of a complicated and customized process.

REFERENCES


ADDITIONAL RESOURCES


