

Bigger, Broader and Better Linked

Considerations for Integrated Sourcing of Real Estate and Facilities Management

For many companies, facilities management is the second largest cost behind people. So it's no wonder that organizations have progressively pursued different sourcing strategies to reduce this cost. Solutions have evolved from traditional out-tasking and outsourcing to the more recent strategy of integrating real estate and facilities management—sometimes with other business functions—under a single service provider. Through such alternative sourcing models, large organizations commonly reduce facilities costs by tens of millions of dollars a year.

Sourcing Evolution

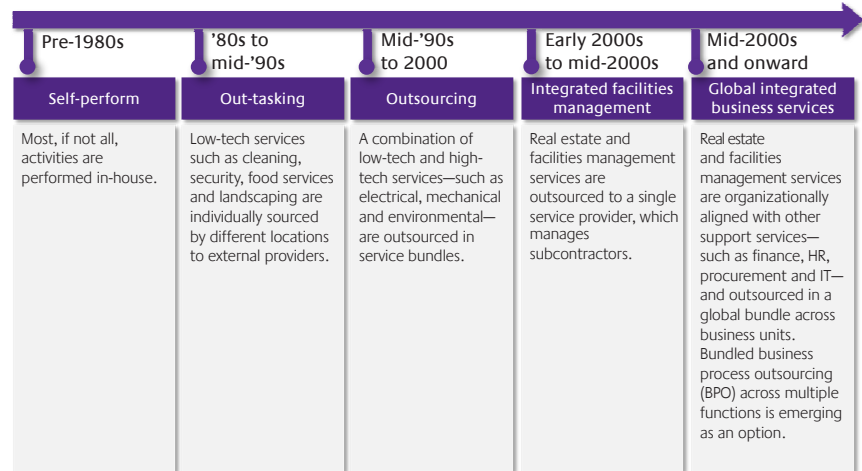
Over the past decades, real estate management has steadily evolved toward more outsourcing and more bundling of services, and today that trend is culminating in the integrated outsourcing of real estate and facilities management. Such integration is becoming increasingly popular, as diverse companies like Procter & Gamble, American Express, Agilent, IBM and BP all have moved in that direction.

So, if reducing the “total cost of ownership” is the holy grail, then it is well within reach. That's why most companies are considering at least some level of integration. But before you get too carried away, it's important to understand the realities of today's marketplace, as provider capabilities don't always line up with buyer expectations. A good approach is to assess your situation, consider the solutions that the market can offer, and then determine what level of integration makes the most sense for your organization.

First, a quick history.

The service provider community, meanwhile, has also evolved to offer integrated real estate and facilities management services. In 2005, Johnson Controls acquired USI. In 2006, CB Richard Ellis acquired Trammel Crow, and United Group Limited acquired Equis. In 2007, Grubb and Ellis merged with NNN Realty. And in 2008, Jones Lang LaSalle announced a merger with Staubach.

Evolution of Real Estate and Facilities Management Sourcing



To what end?

Cost reduction remains the fundamental driver for facilities sourcing strategies – with good reason. At its most basic level, outsourcing can create savings of 7 percent to 20 percent, which, for large corporations, translates to annual savings of tens of millions of dollars. Service providers typically deliver these benefits through direct labor savings, financial management against benchmarks, management of service levels, procurement leverage, technology and optimized processes.

Related cost benefits can come in the form of lower operating costs and capital investments, improved lifecycle management for assets, and increased flexibility to ramp facilities up or down based on the state of the business – all of which can reduce the run rate on real estate and facilities costs.

But cost isn't the only driver. Alternative sourcing strategies commonly have other objectives, such as:

- **Reduced space and improved building environment.** Different sourcing models can help organizations use space more efficiently by lowering the average square feet per person, accelerating the disposal of any vacant space, and improving the sustainability of the work environment. The result is often a more flexible workplace that drives employee productivity and contributes to Corporate environmental responsibility goals.
- **Improved service levels.** An alternative sourcing arrangement can improve quality and increase customer satisfaction, helped by objectives such as better service levels, measurement, accountability and standardization of best practices. Related objectives can include technology such as self-service Web portals that can streamline maintenance requests; improved regulatory compliance; and proactive maintenance strategies that go beyond the typical preventive or predictive models.

- **Improved department performance.** Another common objective is to simply improve the performance of the real estate and facilities management departments. Partnering with service providers, for example, can enable organizations to access specialized talent and share knowledge across real estate and facilities staff worldwide, while fostering a stronger link between real estate services and facilities operations. Alternative sourcing models can also fuel more accurate and standardized data for improved analysis and decision-making, while reducing the overall cost and effort of managing an organic staff. The internal team, meanwhile, can be freed up to focus on strategic activities or can be redeployed to an improved career environment.

Reality Check

Given the potential benefits, the key question for most companies is not whether to integrate real estate services and facilities management in an outsourcing solution – but at what level. Besides real estate strategy and policy setting, which are better left in-house, almost all other services are up for integration grabs.

But before diving headfirst into an integrated outsourcing arrangement, consider the realities of the marketplace. Granted, some buyer expectations are readily met by service providers. For example, providers are used to accountability and focusing on core competencies, as long as the customer’s internal leadership is willing to let go of the day-to-day work. Likewise, for those buyers wanting to redeploy some staff, providers can generally offer good career opportunities and an environment of relatively low turnover.

In other areas, however, buyer expectations don’t always match up with provider capabilities:

- **Expectation: Recurring annual savings.**
Reality: Providers generally estimate first-year savings of 10 percent to 15 percent, but cost reductions beyond that may compromise service levels. Indeed, contracts with guaranteed cost reductions are losing favor, partly because every customer request often becomes a change order that can eat into provider margins.
- **Expectation: Avoided capital investment.**
Reality: Providers rarely make loans or investments, other than to defer fees. Even technology is usually paid for by the customer.
- **Expectation: Better pricing or economies of scale.**
Reality: Pricing is improving, but providers are still unable to leverage their total spending very effectively.
- **Expectation: Standard procedures.**
Reality: Standardized operations are getting better, and some providers are housing their “playbooks” on Web portals. At issue, however, is adoption of standard procedures by provider staff who may not be working directly on the customer’s account.

- **Expectation: Best practices.**

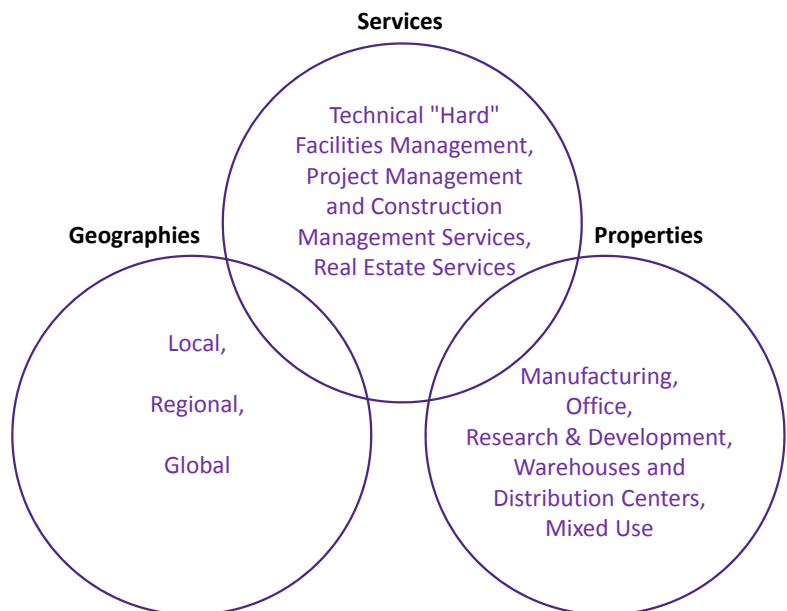
Reality: Similarly, providers' use of best practices is improving, and some of the largest providers have best-practice libraries on their Web portals. But these practices tend to be less "best" and more often mere collections of practices used with different clients.

- **Expectation: Technology.**

Reality: Lastly, providers are getting better at delivering on technology expectations, with most third-party systems working well. However, providers' workflow tools and dashboards, which are designed to integrate and report information, still need work.

Ensuring Success

Add it up, and a key reality is this: Despite emerging interest in global integration, the supplier market isn't yet mature enough for a relationship spanning all of a customer's properties worldwide. Therefore, it's wise to ask what level of integration makes sense for your organization, considering three key dimensions:



- **Services.** Do you want to combine technical, "hard" services like preventive maintenance and mechanical systems, with "soft" support services like cleaning, security and mailroom with fewer providers? Also consider project management and construction management services, as well as real estate services such as site selection and lease administration.
- **Geographies.** Do you want a local, regional or global integrated provider?
- **Properties.** Do you want a provider for all types of facilities or a subset -manufacturing, offices, research and development, warehouses and distribution, or mixed use?

Real Estate Services and Facilities Management			
Technical “Hard” Services	Support “Soft” Services	Project Management & Construction Management	Real Estate Services
<ul style="list-style-type: none"> • Facility maintenance • Preventive maintenance • Building systems (HVAC) • Mechanical and electrical • Energy/utilities management • Ground maintenance • Building fabric maintenance • Structural/specialty cleaning • Fire and life safety systems • CMMS maintenance • Skilled trades (plumbing, carpentry, painting) • Waste disposal and recycling • Telecommunications • Property management • Facility planning/space management • Minor construction/projects • Contract management • Production equipment maintenance 	<ul style="list-style-type: none"> • Janitorial/cleaning • Pest control • Waste management/recycling • Porter and housekeeping • Dispatch/call center • Security • Food service • Reception/concierge • Mailroom and reproduction • Audio/visual • Office moves & setups • Shipping/receiving • Material handling/distribution • General stores/purchasing 	<p>Project management</p> <ul style="list-style-type: none"> • Project planning and organization • In-house/external work assignment • Bid solicitation & evaluation • Engineering standards • Project/material/equipment specifications • Schedule control • Cost control • Quality control • Outside design-firm oversight • Purchasing requisitions • Performance measurement • Facility startup <p>Estimating</p> <ul style="list-style-type: none"> • Project estimates • Feasibility studies • Development of estimating tools or cost databases • Engineering/consulting • Design engineering (various disciplines) • Process engineering • Environment engineering • Sustainability • Utilities engineering <p>Construction</p> <ul style="list-style-type: none"> • Construction-contractor oversight • Construction • Construction audit 	<p>Leasing</p> <ul style="list-style-type: none"> • Portfolio strategy • Leasing • Acquisition and disposition • Lease buyouts and subleasing • Restorations <p>Ancillary leasing services</p> <ul style="list-style-type: none"> • Site selection • Incentives negotiation • Merger and acquisition support • Broker opinions of value • Environmental consulting <p>Lease administration</p> <ul style="list-style-type: none"> • Rent rolls • Expiration date reporting • Lease abstracts • Rent processing • Rent payment • Rent collection from subtenants • CAM expense reconciliations • Insurance notifications • Lease audits • Space management • Strategy • Space planning • CAD/CAFM maintenance

From there, thoroughly assess your situation and what you stand to gain from an integration strategy. For the different areas in real estate services and facilities management, ask questions such as:

- Who does it now?
- If it is insourced, can it be outsourced?
- Can it be self-performed by a service provider, or would it be subcontracted out?
- What are the key issues (such as labor unions or the needs of different business units)?
- Are there potential savings from doing less of it or doing it differently?
- Are there potential savings from increasing the size of a contract by bundling services across facilities or by rebidding a contract to the same vendors?

Unfortunately, customers’ provider relationships – as well as their retained organizations – often are too poorly structured to yield the expected benefits of integration. Therefore, if you do decide to pursue an integrated strategy for sourcing real estate and facilities management, be sure to pay attention to these critical success factors: change management, economic analysis, evaluation of the solution, sourcing and contracting, and governance.

Change & Transition Management	<ul style="list-style-type: none"> • Active executive sponsorship • Clear decision process and roles • Aligned and understood objectives • Robust program and change management
Economic Analysis	<ul style="list-style-type: none"> • Precise baseline and scope • Market comparable price • Aligned pricing and commercial model
Solution Evaluation	<ul style="list-style-type: none"> • Defined future state requirement • Scrutinized global delivery model • Benchmarked process, technology, and organization innovation
Sourcing and Contracting	<ul style="list-style-type: none"> • Competitive or comparative process • Collaborative solutioning and evaluation • Market based terms and conditions • Leverage 3rd party advisory and legal
Governance & Relationship Management	<ul style="list-style-type: none"> • Emphasis on relationship not the transaction • Robust customer and service provider facing model • Reoriented retained organization

Conclusion

Due to the progressive benefits of alternative sourcing strategies, the integrated sourcing of real estate and facilities management is a logical consideration for most companies. However, despite the emergence of global integrated services as an option, the current provider market isn't mature enough to live up to the promise. In response, it's wise to thoroughly assess your needs versus the realities of the marketplace, and then determine what level of integration makes the most sense. Once you decide on a solution, focus on change management, governance and other critical success factors to help ensure your sourcing strategy realizes the intended benefits.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement, Real Estate and Facilities Management and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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