

# WHITE PAPER

## FACILITY MANAGEMENT

# Outsourcing Compact Portfolios

This White Paper looks at the advantages, disadvantages, issues and options of outsourcing FM services for compact portfolios.



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## WHAT IS A COMPACT PORTFOLIO?

It's not about the size of your facilities, it's about where they are.

A compact portfolio could be a single building. It could be multiple buildings in a single campus or even multiple buildings in a single city regardless of the total area involved.



Portfolios with multi-city, region or country facilities are not compact portfolios regardless of the size of the buildings or the total area involved.

A compact portfolio could be a corporate office, warehouse, university campus, hospital campus, shopping centre, data centre, etc.

## WHAT IS OUTSOURCING?

The basic definition of Outsourcing according to Miriam-Webster is to procure (or contract) goods or services from outside your organization. By this definition, many organizations already 'outsource' most of their Facilities Management through many separate service contracts, but we usually call it contracting out, sub-contracting or our-tasking,

The more prevalent definition in Facilities Management is that outsourcing FM is to subcontract a bundle of services to a single provider along with the management, administration and coordination of those services. Outsourcing may also include other overall services such as energy management, maintenance management systems or helpdesk services.

This means contracting for a single service such as janitorial, pest control, landscaping or security is not Facility Management outsourcing. It becomes outsourcing when you have contracted several of the services to the same service provider who also provides the management, integration and coordination of those services.

Outsourcing may simply be bundling services you currently contract out so one service provider has overall management and administration of the bundled services. This is basically a different form of procurement.

Or it may involve contracting out service that are currently performed by your own employees. This is more complex and can have significant Human Resources implications.

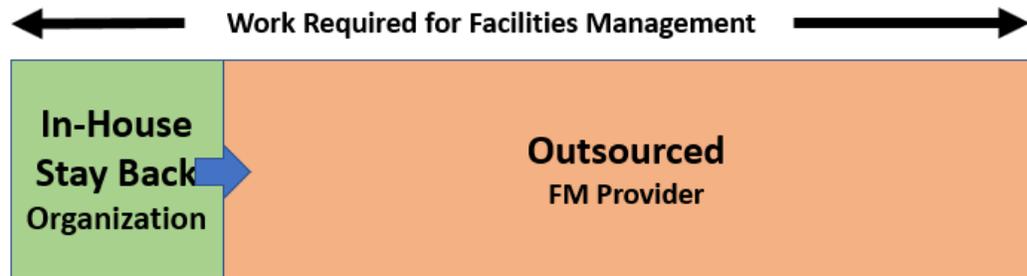
## TYPICAL FM DEPARTMENT

Most FM departments contract out many services. The number of services contracted out depends on how many services are delivered in-house with your own staff.



## TYPICAL OUTSOURCED FM SERVICES

This shows how you (the in-house stay-back organization) now manage a single FM provider. It looks very similar to the one above, the difference is that you interface with a single FM provider, not multiple contractors. This is the full outsourced approach where everything is bundled into one contract.



The reality is that your new outsourced FM provider will sub-contract many services themselves.



## WHAT ARE THE REASONS TO OUTSOURCE?

With outsourcing, the intent is to receive better services at the right price with less involvement from you so you can concentrate on your core business and strategic requirements.

According to a Deloitte's 2016 Global Outsourcing Survey, here are the reasons companies outsource along with the number of respondents who identified that reason:

<i>Reason</i>	<i>%</i>	<i>What it means for you.</i>
<b>Cost cutting tool</b>	<b>59%</b>	You can get cost savings through better efficiency and economies of scale, however there are often other costs that go along with outsourcing services that must be considered. In addition, you are less likely to save when outsourcing previously subcontracted services than when outsourcing in-house delivered services, although it always depends on how efficient and effective your in-house team was.
<b>Enables Focus on Core Business</b>	<b>57%</b>	With a properly outsourced service, you are less involved in details such as employee scheduling, supplies, administration, software systems, etc. and with a well-managed contract, can turn to more value-added initiatives in your organization.
<b>Solves Capacity Issues</b>	<b>47%</b>	This is mostly when you outsource work currently done by employees in-house. You access a larger pool of resources from the service provider who is better positioned to address capacity and resourcing issues.
<b>Enhances Service Quality</b>	<b>31%</b>	FM outsourcing providers can afford to provide better support, better training, tools and software, oversight and lessons-learned from their other portfolios. They also should have well established processes and methods to achieve quality.
<b>Critical to Business Needs</b>	<b>28%</b>	To some, critical business needs should not be outsourced, however sometimes an external provider is better positioned to deliver critical services because of their resources, knowledge, skills and experience. Facilities is not considered critical generally however there are elements of the service that are critical to your needs.
<b>Access to Intellectual Capital</b>	<b>28%</b>	A large FM service provider has more resources, knowledge, tools, training and systems than most compact portfolios have. This includes lessons learned and industry leading approaches developed from their large portfolios.
<b>Manages Business Environments</b>	<b>17%</b>	The service provider largely provides the services and the business environment your organization needs to be successful. As part of this, you don't have to manage the large number of individual specialties and contractors who are involved in the services.
<b>Drives Broader Transformation and Change</b>	<b>17%</b>	This is mostly realized when outsourcing a service previously provided in-house. Outsourcing enables quick change through the transition to outside services, reducing the length of time and effort needed for internal changes.

# WHAT ARE THE ADVANTAGES OF OUTSOURCING?

The advantages are closely aligned with the most cited reasons for outsourcing identified above. In summary, they include:



## ECONOMIES OF SCALE

An outsourcing provider has larger scale when they procure the subcontracted services and because of their size, can generally achieve better pricing for services and supplies as well as spread costs of specialty services, technology and other resources across larger portfolios and between clients.

Additionally, if your portfolio is small and does not justify a full-time facilities manager or department, outsourcing can provide the services to you by adding your facility to their existing portfolio and applying a proportion of their existing management, admin and services to your facility.



## EFFICIENCY

Like economies of scale, larger FM providers can be more efficient since they are managing in a larger environment. This includes more efficiently allocating resources across client portfolios based on workload and expertise. Efficiency also applies to software that does things like maintenance management, lease administration, project management and office space management. In addition, it may be expensive for you to staff 24 hours, but FM providers can do it with less cost per facility due to their larger portfolio volumes.



## FLEXIBILITY

Larger FM outsourcing organizations also have more resources than you would so during peak times or for special requirements they can access staff where you may struggle. In the other direction, they can make reductions and adjustments more readily during low demand times than you could if you have staff on the payroll.



## TECHNOLOGY AND SPECIALIZED SKILLS

Since your provider would be larger than your department could be and have multiple clients and portfolios, they can invest in technology and specialized staff that you could not do within a reasonable cost. They add you to their maintenance management system, add you to their helpdesk, have their existing energy manager, technical manager, quality assurance manager and more apply their skills and knowledge to your facilities in a way you could not on your own either on your payroll or through hourly engineering / consulting costs.



## WHAT ARE THE DISADVANTAGES OF OUTSOURCING?

Outsourcing gives another organization the administration, management and coordination responsibilities for the services you outsource. The main disadvantages are:



### CONTROL

You are one step removed from the services. You can address some of this with well-developed specifications, performance management and contract provisions, but for each of the services included in the outsourcing initiative, you will always be one step removed.

You are managing a provider who then often is managing sub-contracted services that you previously would have managed directly before. As you can see, this is both an advantage and a dis-advantage.



### DUPLICATION OF OVERHEAD AND PROFIT

While in some areas you get lower costs, you also pay an overhead and profit to the outsourcing firm to manage the services. If the FM Outsourcing company subcontracts services, particularly large value services, you pay extra for them to manage the subcontractor for you, duplicating the management, overhead and profit related to those services. For small or seldom used service, this is an advantage, for larger, more expensive services, this may be a disadvantage.



### GENERALIZATION

When you outsource a bundle of services, the outsourcing company typically procures and sub-contract a number of services which they then manage for you as the generalist.

This is beneficial when there are many smaller related specialized services involved like there are in the maintenance management function and less useful with larger general services such as Security, Snow, Landscaping and Janitorial.

Since you no longer have direct control over the services they procure on your behalf as part of the bundled services, you may not always get the resources you prefer or would have selected if you had procured them directly yourself.

## WHAT IS DIFFERENT ABOUT A COMPACT PORTFOLIO?

In a compact portfolio, you are much closer to the facilities and services compared to a regional, country wide or international portfolio where they are spread out and more difficult to manage directly in each of the different locations.



And If your size is relatively modest, when managing in-house, you would pay too much for specialty resources that are not required full-time such as energy specialists or technologies such as maintenance management software or services such as 24-hour call centres. These are expensive at a smaller scale.

And even if you could hire your own specialist, their ongoing certification, training and development and knowing the latest industry practices is more challenging than when they are in a much larger organization.

## HOW DO YOU BALANCE THESE?

Since there are both advantages and disadvantages, you must consider several factors in balancing them and informing your decision about your approach to Outsourcing FM services.

There is no one single solution, you need to consider your specific situation.



## OBJECTIVES

The objective of your outsourcing initiative is important for your decision. This is related to the original reasons organizations outsource and which of them are relevant to your situation. Just remember that not all the reasons for outsourcing identified in the survey will apply to you or get the same benefit for you. It is important to assess your own objectives against the different approaches to Outsourcing.

## ISSUES

Beyond objectives, what are the specific issues you are facing and want to improve or change? Is it costs, service, internal resourcing, challenges managing multiple contractors, lack of experience or technology?

How will outsourcing specific services solve those issues for you?

## YOUR SITUATION

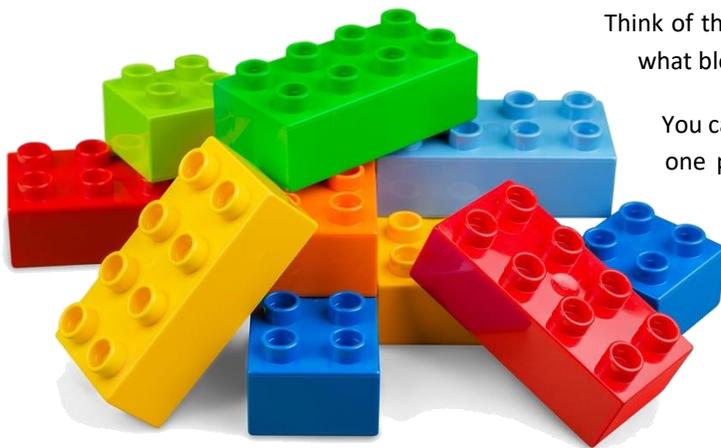
If you already contract most of your services, a bundled FM Outsourcing approach would be easier to do, but cost savings may be lower. Your key benefit is that you would procure and manage fewer suppliers by engaging a larger outsourcing company who can get economies of scale for sub-contracted services.

If you have in-house staff performing some of your services, it requires more effort to manage in-house but depending on your in-house costs, outsourcing could either be a cost benefit or add to your costs due to added overhead and profits from the supplier.

If you have sufficient in-house management to oversee multiple service providers, a fully bundled Outsourcing approach may not be needed unless you reduce in-house management or they are re-assigned to other activities. If you are overloaded with minimal internal staff and already can't manage the current workload, outsourcing can shift the effort of managing multiple subcontracted services or in-house resources from you to the new provider.

## WHAT ARE ALTERNATE APPROACHES?

Your alternatives are based on how to bundle services for the best outsourcing advantages with the fewest disadvantages.



Think of the services as a bunch of blocks and you need to decide what blocks to put together.

You can outsource the services that make sense as a bundle to one provider and continue to sub-contract services or self-perform services you are better positioned to oversee and manage and for which bundling provides fewer of the benefits when bundled.

## HOW DO YOU DECIDE?



Here are some of the factors to use when deciding on what to bundle into an outsourcing initiative and what to continue subcontracting and therefore managing internally:

### **COMPLEXITY**

The more complex and specialty the service is, the more likely you should not manage it directly, and therefore they should be bundled.

### **CONNECTED/COORDINATED SERVICES**

The more connected and coordinated services are, the more likely they should be bundled and included in a single contract with overall management of those services by one service provider as an outsourced service.

### **SPEND**

The higher the cost of single service the less likely it should be bundled. Small spends or seldom used services that are harder to procure in smaller scale are more likely to be bundled.

### **CONTROL & IMPACT ON YOUR ORGANIZATION**

The services with the highest impact and visibility to your organization should remain under your direct control instead of bundling them.

The exception is usually highly technical specialized services that are better managed and coordinated with other technical services by an organization with the skills, experience and knowledge to deliver the services better.

### **RESOURCES AND ADMIN**

The fewer resources and administration you have available to manage multiple contracted services, the more things should be bundled into an outsourcing initiative.

### **INVESTMENT (EQUIPMENT, TOOLS, TRAINING, ETC.)**

Specific services requiring special equipment, special tools or intense training, re-training and certification are more likely to benefit from being sub-contracted, whether individually contracted or bundled into an outsourcing initiative based on other factors.

Overall services that require software, resources or specialized management (maintenance management software or a 24-hour help desk are examples) can be expensive to implement for a compact portfolio but less costly when outsourced, particularly when bundled with other services.

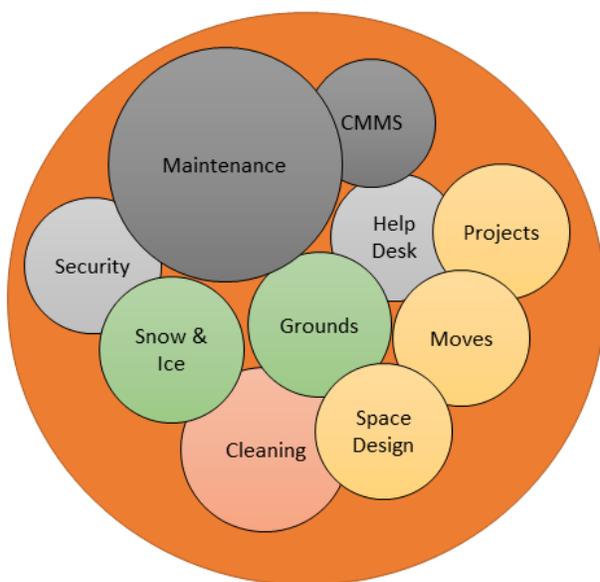
# BUNDLING OPTIONS

Here are a few different bundling options that illustrate how you can split out services to do in-house, to subcontract directly and to bundle as an FM Outsourced contract.

You use the decision factors above to help decide which is best for your organization.

This example only includes a small range of possible services, the same principle applies to all other services you may require.

## FULLY OUTSOURCED



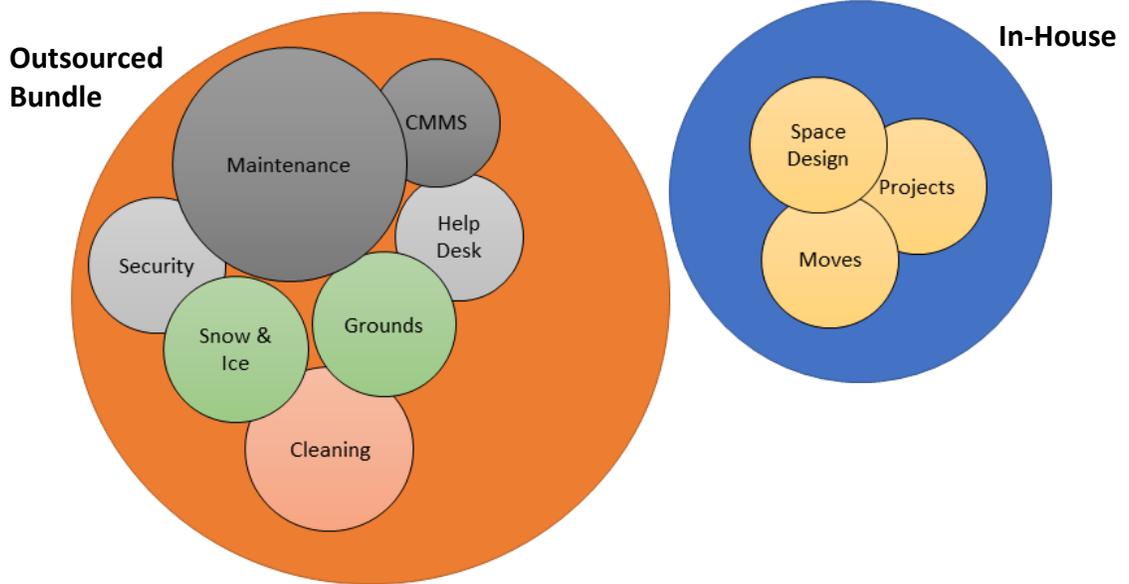
This is the classic fully outsourced model. It bundles the delivery of all services together under one FM Outsourced Provider.

This is more likely to be seen in a larger geographically dispersed portfolio.

Depending on whether you own the building or not, some of these tasks may be done by the landlord and the service provider interfaces with the landlord to ensure services are delivered as expected by the lease.

Note that while the service delivery is outsourced, the strategic activities, including financial planning, capital planning and space planning, for instance, remain in-house.

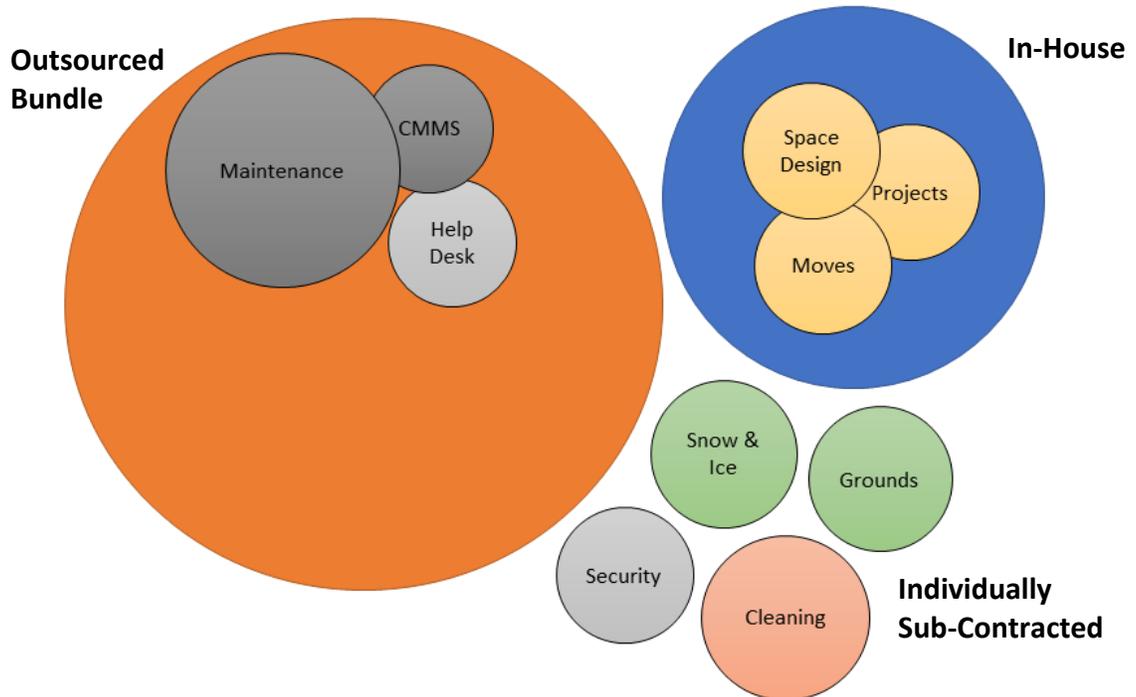
## OUTSOURCED + IN-HOUSE



In this model, certain activities are retained in-house. A split between in-house and outsourced services is common in larger portfolios where they have the resources to perform the functions in-house and where those services are more strategic or critical to their core business.

This example keeps space and project related activities in-house but some larger organizations may keep the help desk or security in-house, for instance or have their own staff delivering cleaning or providing grounds services (landscaping).

## OUTSOURCED + IN-HOUSE + INDIVIDUAL CONTRACTS



This is a mixed approach to maximize advantage and minimize disadvantages.

This alternative takes larger, stand-alone services out of the outsourced bundle. These are services which may not benefit from being bundled under an overall provider in a compact portfolio. The items here would depend on your own specific objectives and issues as described further above.

The in-house services are the same as the previous example.

The bundled services remaining includes maintenance, CMMS (maintenance management software) and the help desk. The maintenance is bundled because it has many coordinated specialty services. The CMMS is bundled with maintenance because it is closely related to maintenance and require significant investment and resources. The help desk is included for the same reason.

The individually sub-contracted services are not closely coordinated or linked to the other services or each other except for Grounds and Snow & Ice which can sometimes be contracted out to a single provider who does both winter and summer services.

In addition, the individually sub-contracted services can be high cost due to the volume of activity (such as cleaning) or because they have a direct and visible impact on occupants and visitors to your facility. They are also easier to manage as stand-alone services.

## SUMMARY

FM Outsourcing is a viable option for Compact Portfolios however applying it to the entire range of services without considering the issues and options may not achieve the best results.

As with any business decision, step back and look at all the factors along with the advantages and disadvantages of each alternate approach before finalizing your approach to outsourcing your facilities services.





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