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Facilities Management in 2013

Strategic Partnership:

securing the future for FM

Contents

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About this White Paper

“Combining a deep knowledge of business drivers with a genuine understanding of the needs and expectations of people in the workplace is the path to enhancing the strategic value of facilities management”

"The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday’s logic." — Peter Drucker

The annual Workplace Futures conference has established itself as a landmark in the UK facilities management calendar. The 2013 event once again featured the characteristic Workplace Futures triple focus on the current market situation, emerging trends and future opportunities. The event was bigger and – many delegates told us – better than ever.

The theme for 2013 was ‘strategic partnership: securing the future for FM’.

Taking Drucker’s argument to heart, the conference rationale adopted a clear stance: we need to move on. We need to take FM theory and practice to the next level. We need to stop thinking about service delivery in the old ‘tried & tested’ ways and start thinking in terms of true alignment with business objectives and real customer experience. The case being made here was this: combining a deep knowledge of business drivers with a genuine understanding of the needs and expectations of people in the workplace is the path to enhancing the strategic value of facilities management.

This is not a new argument – and there are a few client organisations and service providers blazing trails towards genuine strategic partnerships for the future.

But ‘tried & tested’ still dominates FM practice: costs, cuts and competition are too often the themes, too often pushing the discipline towards commoditisation and squeezing out the opportunities for adding real benefit and value.

Where are the trail-blazers, and what can we learn from them? This was the challenge that shaped the programme at Workplace Futures 2013.

The event assembled, through a series of research-oriented presentations, the evidence for what needs to change in UK facilities management and why. It also brought together some of the best examples in the industry of ‘next generation’ thinking and – critically – practice. These are projects and contracts that are up and running, so the lessons to be learned for the future of FM are already being worked out.

The goal underlying the conference, and reinforced through this paper, is the sharing of knowledge and information around examples of future-shaping practice - highlighting experiences, needs, action areas and opportunities for the continued development of facilities management as an industry and a key business discipline.

2 Introduction

Martin Pickard
Conference Chair 2013, Managing Director, FM Guru

Martin Pickard, Conference Chair 2013

"There is a growing list of exemplar case studies that demonstrate the effectiveness of successful collaborative relationships between FM clients and service providers. These role models show what can be achieved when a well designed and implemented facilities strategy is allowed to mature"

The UK FM Industry is a success story which has consistently grown and developed to meet the changing needs of its customers. Despite continued problems with external recognition and poor public perceptions around the outsourcing paradigm, the market continues to mature and the sophistication of the UK's leading providers offers great hope for the future.

This year's Workplace Futures Conference showed how the sector is still growing and gaining recognition while developing ever more effective relationships with its clients. From a rousing keynote by industry figurehead Ruby McGregor Smith to the closing reality check by FM polemic Dave Wilson, presentations from across the sector showed the appetite for change and for a new era of engagement.

While the economy continues to struggle, the market for outsourced facilities services maintains slow but steady growth. Bundling and forms of Total FM contracts continue to grow faster than other variants, but the sector is still dominated by single-service technical specialists as many occupiers remain pessimistic about the viability of the integrated offerings.

The size of the client continues to affect this decision: those with larger estates and more sophisticated procurement capabilities are far more likely to engage with the new breed of multi-service FM providers. This is particularly true on the global stage where the deals being done are bigger than ever, as a handful of global FM players emerge.

One of the problems FM has suffered from over the years has been a shortage of statistical evidence of the benefits gained from good practice. The emergence of tools like the Leesman Index and the FM Relationship Assessment Tool are welcome demonstrations of the sector's coming of age. The application of good practice in FM strategy, workplace design and outsourcing relationships is not new, but the development of best practice requires a combination of proven results and public recognition of the benefits attained.

There is a growing list of exemplar case studies that demonstrate the effectiveness of successful collaborative relationships between FM clients and service providers. These role models show what can be achieved when a well designed and implemented facilities strategy is allowed to mature. The resultant benefits for all parties become obvious as improvements over previous models are realised.

This is a key part of the best practice conundrum. Each player starts from a different position with differing business drivers, needs and issues to address; different experiences, capabilities and competences to apply. The lessons to be learned by others lie not in what they did but in how they developed their own unique solution.

"RICS research showed that less than half of occupiers' FM functions were wholly aligned with corporate strategies. Without this level of client intelligence it is little wonder that the facilities supply chain is so often misdirected"

The RICS campaign to 'raise the bar' in FM addresses this issue; for facilities management to fulfil its potential there must be a strategic engagement with the goals and aspirations of the core organisation that allows a professional facilities solution to develop which will deliver the strategic outcomes desired.

These are the results our efforts should be measured against but as the Workplace Law research has demonstrated, this is no easy task. Little wonder that both clients and service providers quickly default to much simpler task-oriented protocols.

This leaves FM without a clear value proposition, as Dave Wilson has so starkly announced. We have no clearly defined statement of the value that the integration and management of facilities services brings. Value is something the customer is prepared to pay for. Value to the customer equals benefits minus cost. Our problem is that it is easy to define the cost but far more difficult to quantify the benefits.

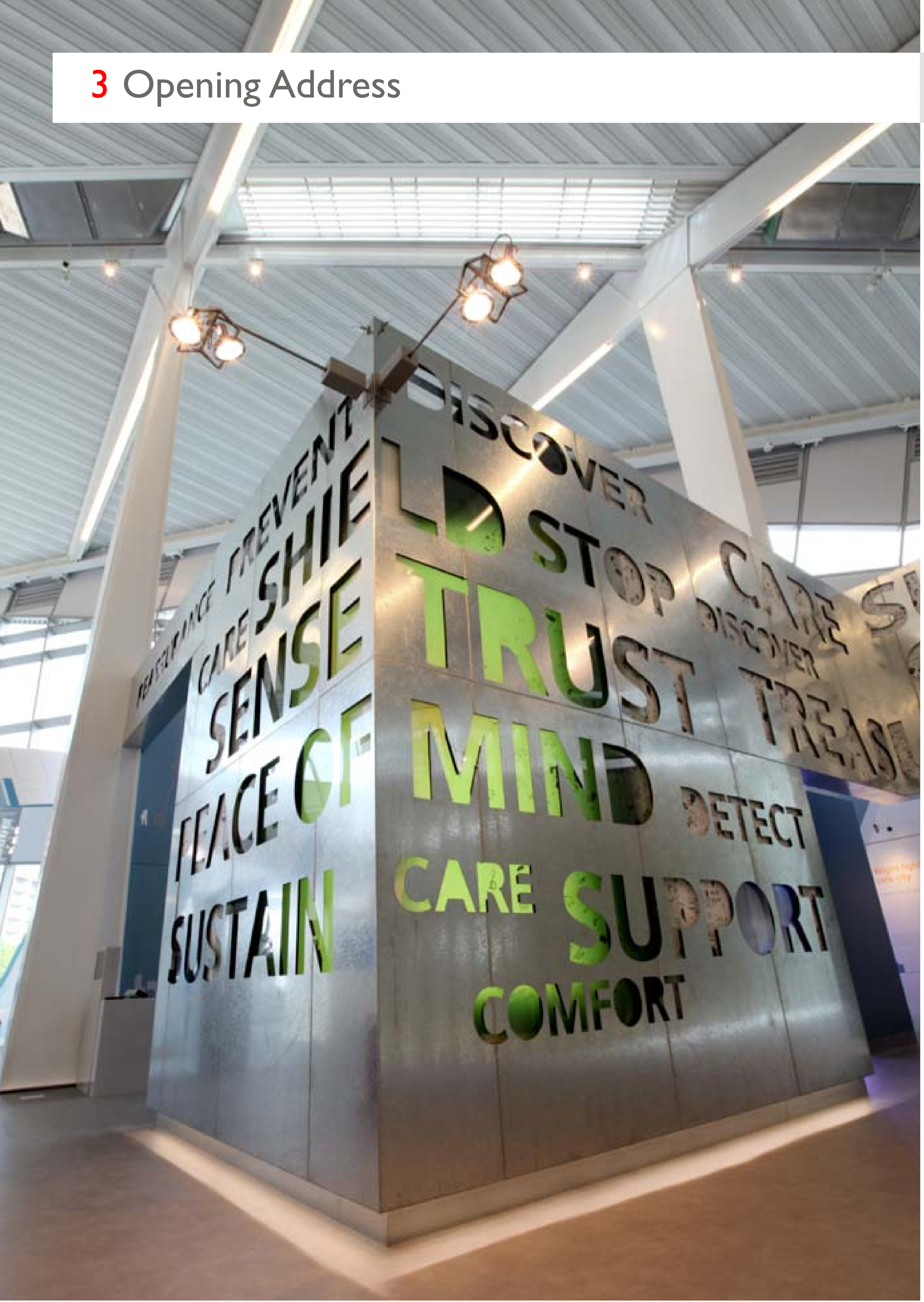
The confusing and meaningless brand promises made by many FM marketers often fail to address the three primary requirements of a successful brand proposition: capability, impact and price. Capability is about what the service provider can do for the client; the impact or outcome is about what that means for them or for their organisation; and the price is about how much the client would have to give up in order to obtain that impact.

This assumes that the client even knows what outcome they desire. The RICS research showed that less than half of occupiers' FM functions were wholly aligned with corporate strategies. Without this level of client intelligence it is little wonder that the facilities supply chain is so often misdirected. Even where alignment has been realised, the dominance of competitive tendering as the procurement model of choice renders the necessary level of engagement more difficult.

This doesn't need to be the case, as our exemplar case studies show. Each of them demonstrates the benefits of open communication and flexible positioning over commodity purchasing in a restrictive contract. When the client's desired outcomes have been identified and a commercial dialogue established with service providers capable of meeting that need, then the right kind of collaborative relationship can be developed and benefits for both parties will accrue.

These things rarely happen by chance but by committed and intelligent application of the good practices developed in our industry's relatively short life. The continued success of the facilities service industry requires leadership and investment in the better understanding of these issues. The level of debate at Workplace Futures 2013 provides optimism for FM at a time when other industries are struggling. My faith in the facilities community to maintain the drive forward is once again renewed.

3 Opening Address



Ruby McGregor-Smith CBE
Chief Executive, MITIE

"Although there have been many opportunities in this climate for the outsourcing industry as customers look to save money by outsourcing more non-core functions, we are not immune to the need to innovate"

In the shadow of a 'lost decade' of innovation, there is opportunity in FM to lead the way in innovation and secure a lasting impact on the industry.

At MITIE, we don't shy away from a challenge. We've embraced opportunities over the past quarter century to achieve 25 years of consecutive growth in a constantly evolving market. But it certainly hasn't been easy.

The impact of the UK's tough economic environment since 2008 has reached far and wide. Not least is its effect on investment in innovation. Investment in new products and ideas has fallen by £24bn since 2008, as UK businesses focus more on cash than creation. This shift in priorities is bound to have an impact on the UK's long-term growth potential. Nesta, the independent charity dedicated to increasing the country's innovation capacity, has even talked of a 'lost decade'.

Although there have been many opportunities in this climate for the outsourcing industry as customers look to save money by outsourcing more non-core functions, we are not immune to the need to innovate. We need to keep finding ways to do more for our clients with less, provide better services and to do so more efficiently.

As the industry landscape continues to evolve, I believe there are three key trends that will drive change:

1. The need to harness technology: Technological change will continue to go hand-in-hand with innovation, affecting the way that we work and how we can deliver smarter solutions for our clients.

2. The shift from single services towards bundled and integrated contracts: As clients continue to look to one source to both provide and manage all their essential services, we will see further demand for a broader range of services under one roof.

3. The impact of energy: How much energy we use, how we use it, how we procure it and the impact on the environment are all now at the top of every organisation's agenda. Reducing both consumption and cost is becoming an increasingly integral part of FM.

These emerging trends will dictate how the industry moves forward. We need to adapt with it, both in the way that we deliver services for our clients and in how we manage our business.

As the market remains competitive, the inevitable pressure this places on margins will no doubt continue. It's vital that we look to diversify our services and markets to offset this pressure and guarantee growth.

"Attracting and retaining the very best talent, and giving them the opportunity to develop successful careers, is integral to the future of our industry"

We also face greater challenges around the perception of the outsourcing industry. Our own experience of contract proposals has been derailed by politics, as the service crisis over the Olympics left the entire industry open to attack from the media, trade unions and, in part, from the government.

This negative attention shouldn't blind us to the success of outsourcing. The private sector is capable of providing significant value for public money. The challenge is to respond with more creative, forward-thinking, smart solutions that demonstrate value and help change perception.

The facts and figures say it all: outsourced service providers make up 8% of the UK economy. We employ 3.1 million people (second only to financial services) and make up 10% of the UK workforce. We work with a supply chain of around 250,000 SMEs. And, critically, outsourced savings are typically between 20 – 40%.

The industry, and the contribution it can make to the economy, should not be underestimated. The Oxford Economics report for the Business Services Association put the total value of the outsourcing industry in the region of £200 billion. That's value that we need to start shouting about.

Sending out the right messages about the industry is as much about the people we have on board as the services we deliver. People run our contracts, talk to our clients, and ultimately grow our business. Attracting and retaining the very best talent, and giving them the opportunity to develop successful careers, is integral to the future of our industry.

With youth unemployment at a record high, harnessing and nurturing young talent is especially important. I am particularly passionate about opening doors to young people, whatever their background, be that through apprenticeship schemes, workplace training, or our graduate programme. It's important that we make people aware of FM as a career choice from an early stage and develop their skills and interest right from the word 'go'.

Our combination of passionate people, who deliver services progressively and more efficiently, leaves me confident that the FM sector will be a success story. No doubt there will be challenges ahead. We have to continue to adapt, develop and innovate, and share best practice both within the sector and to a wider audience.

We can, and we should, celebrate our successes. I've always maintained that the sky's the limit for MITIE and the only barriers to our success are self-imposed. If we grasp opportunity, take risks and face challenges head-on, our industry can undoubtedly lead the way for growth and innovation in the UK.

Derrick Tate
Assistant Director, PricewaterhouseCoopers

"A large portion of FM in the UK is still delivered in-house and most outsourced FM is delivered by smaller companies on a single-source basis - the scope for growth of both outsourcing and of integrated or Total FM is significant"

A recent Financial Times headline read 'Economy running to stand still'. The economy has rarely been out of the press for over five years now. We have moved from the credit crunch to the recession to weak recovery to double-dip, and perhaps we are moving to a triple dip. We have lost a number of high street names, had big reductions in government and public sector spending. The business environment has been and continues to be difficult. The wider economy matters to FM.

PwC has published some predictions for the economy for 2013. These include a few that are very relevant to the FM market:

- We predict some modest growth this year, with average real GDP growth of around 1%-2% after around zero growth in 2012.

- Inflation will remain above its 2% target in 2013, but not enough for interest rates to rise.

- Unemployment will continue to trend down at a gradual rate, with private sector net job gains outweighing public sector job cuts.

- The Chancellor will stick to his 'Plan' for fiscal tightening.

We have also published recently a report on CEO business confidence which shows that UK plc is marginally more pessimistic than the rest of the world. Over 50% of UK CEOs are somewhat confident about their company's prospects for revenue growth over the next 12 months, and nearly 20% are very confident. This is interesting for FM as it indicates that on the private sector side at least things may improve.

The survey also asked CEOs what the main opportunities to grow business are. Two of the most popular answers were 'enhancing customer service' and 'improving operational effectiveness'. Both are areas that over half of UK CEOs see as priorities. And they are both areas in which FM can have a big impact.

In a report published by research firm MBD last year the potential market for FM in the UK was estimated to be £125.3 billion. A large portion of FM in the UK is still delivered in-house and most outsourced FM is delivered by smaller companies on a single-source basis, according to the report. The scope for growth of both outsourcing and of integrated or Total FM is significant.

There appears to be an increase in larger more complex deals coming to the market such as the ISS contract with Barclays and JLL's deal with HSBC. The PwC CEO survey also asked which global regions UK firms have key operations in. Western Europe features highly, as does North America and the Middle East. East Asia, South Asia, Australia and Latin America also show a significant presence. This illustrates how global the business world in the UK has become, and this is the pattern that is influencing these large global deals. I expect we are only going to see more of them.

It's not just global banking where we are seeing large deals. The public sector is also following this trend, notably recently Oxfordshire County Council, Essex County Council and Croydon Council, which have done large FM deals, as have NHS Trusts

“What more often differentiates companies are the management, communication and commercial skills of the senior people”

such Leicester and similarly other public bodies.

And it is not just the size and complexity of deals that is getting larger. The scope of FM companies is broadening, too. MITIE’s acquisition of domestic care provider Enara and Interserve’s acquisition of Advantage Healthcare illustrate the appetite of some FM companies to broaden the scope of their services and move into new markets. We are seeing FM moving out of the office, out of the hospital and into the home.

The scope of FM services today can range from cut flowers to looking after specialist equipment in category 4 laboratories. FM is key to many different sites and activities, including transport infrastructure, manufacturing, leisure and entertainment, education, critical national infrastructure, scientific and research facilities and military installations. In order to effectively plan, price, deliver and incentivise such a wide range of services, the commercial structures involved have become more complex.

What does all this mean for facilities management? To start with, in terms of financial value FM is now so large that it has become an important part of the UK economy. There are a number of companies delivering FM included in the FTSE 100 and FTSE 250. Some FM companies are now even ‘household names’.

For the larger, more complex deals there are more and more complex commercial structures which are necessary to meet the requirements of the customer and the commercial needs of the suppliers. These structures can range from straightforward contracts for services, through to special purpose vehicles with transfer of property assets.

I think one of the main impacts of the increasing size and complexity on the FM market is and will continue to be on skills. More and more skilled and experienced business people are coming into FM at high levels from other industries.

If we want to progress, if we want to make the board room, if we want our careers to develop, if we want to get the best value for our organisation, we need to up our management skills and in particular our commercial skills.

In large FM deals, it is not always the technical skills and experience of the companies that differentiates them. All of the main FM companies have the technical skills and experience. What more often differentiates companies are the management, communication and commercial skills of the senior people.

5 The Global FM Market: An Overview

Richard Holden
Director, Catalyst Corporate Finance

"We are also starting to see a fourth wave of development with the emergence of global cross-border TFM providers"

Regional FM markets around the world are at different stages, or 'waves', of development. Delivery models range from dedicated single-service providers to operators delivering multiple services and total facilities management (TFM). We are also starting to see a fourth wave of development with the emergence of global cross-border TFM providers. M&A plays a key role in FM providers moving through each wave, initially acquiring customers, national coverage and then new services - and becoming more sophisticated over time.

The UK is the most mature market followed by the US, Western Europe and Australasia. Most FM companies are multi-service providers or TFMs, and much of the increase in M&A deal volumes since the low of 2009 can be attributed to FM players consolidating their maturing domestic markets, moving towards the next wave of development.

Industry trends

Ongoing economic pressure and increasing competition is forcing FM providers to cut pricing and become more efficient. We are seeing:

- Delivery models evolving – FM companies continue to bundle services in response to pressure from customers wanting cost savings by procuring from fewer suppliers. Customers perceive self-delivered services to be better value for money and increasingly expect FM providers to self-deliver core services rather than using sub-contractors. The TFM model continues to grow its share of the larger contracts market, putting pressure on growing providers to invest in high calibre people and systems to be able to manage a single-source contract across large or multi-site customers.

- Moving up the value chain – FM companies are seeking to add technical or niche services to their offerings. Customers perceive these services as adding value rather than just a necessary cost.

- Resilient end verticals targeted - In order to protect margins, some FM companies are targeting markets such as defence, pharmaceuticals and healthcare where customers are less focused on short-term cost reduction initiatives and more on avoiding business disruption. This is achieved through building trusted relationships with their suppliers.

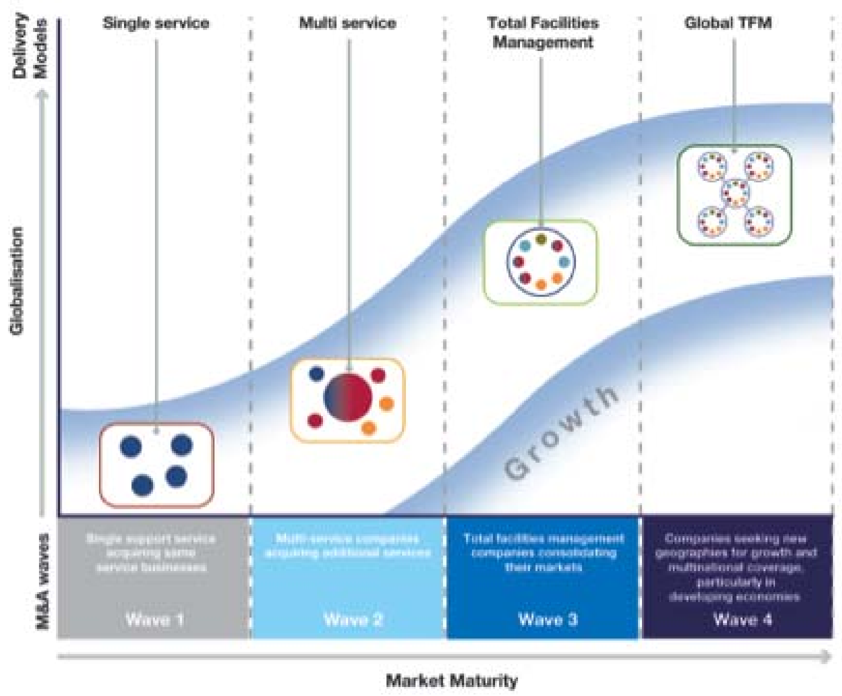
Accessing emerging markets

In the maturity of the UK and West European FM markets, pressure to grow shareholder value and demand from an increasingly multinational customer base for cross-border provision of FM services is driving large players to look to emerging markets for growth opportunities.

Market entry strategies include joint ventures with a local partner and full acquisitions. ISS, OCS and Compass Group have used acquisitions of market leaders or small local players in China and India to build national platforms in new markets. FMs need to be aware that emerging markets are risky and growth can be elusive due to the lack of sophistication of local customers.

“Valuations in emerging markets will continue to rise as good quality assets become scarce”

The impact of M&A on the evolution of FM models



Current valuations

Most FMs are heavily influenced by the heritage of their business model and this leads to clear differences in valuation between the different models, for example:

- Construction/engineering-led FMs tend to have the lowest trading multiples due to their use of a blue collar workforce and the lack of visibility of earnings from project-based revenues.

- Support services FMs have higher valuations driven by the increasing trend of outsourced facilities services, the visibility of earnings from long-term contracts and the increasing provision of technical services. This has been the most resilient sector during the economic downturn.

- Property services FMs typically have the highest valuations due to the provision of higher margin white collar consultancy services, transactional property services and a diverse range of services across the life-cycle of a property.

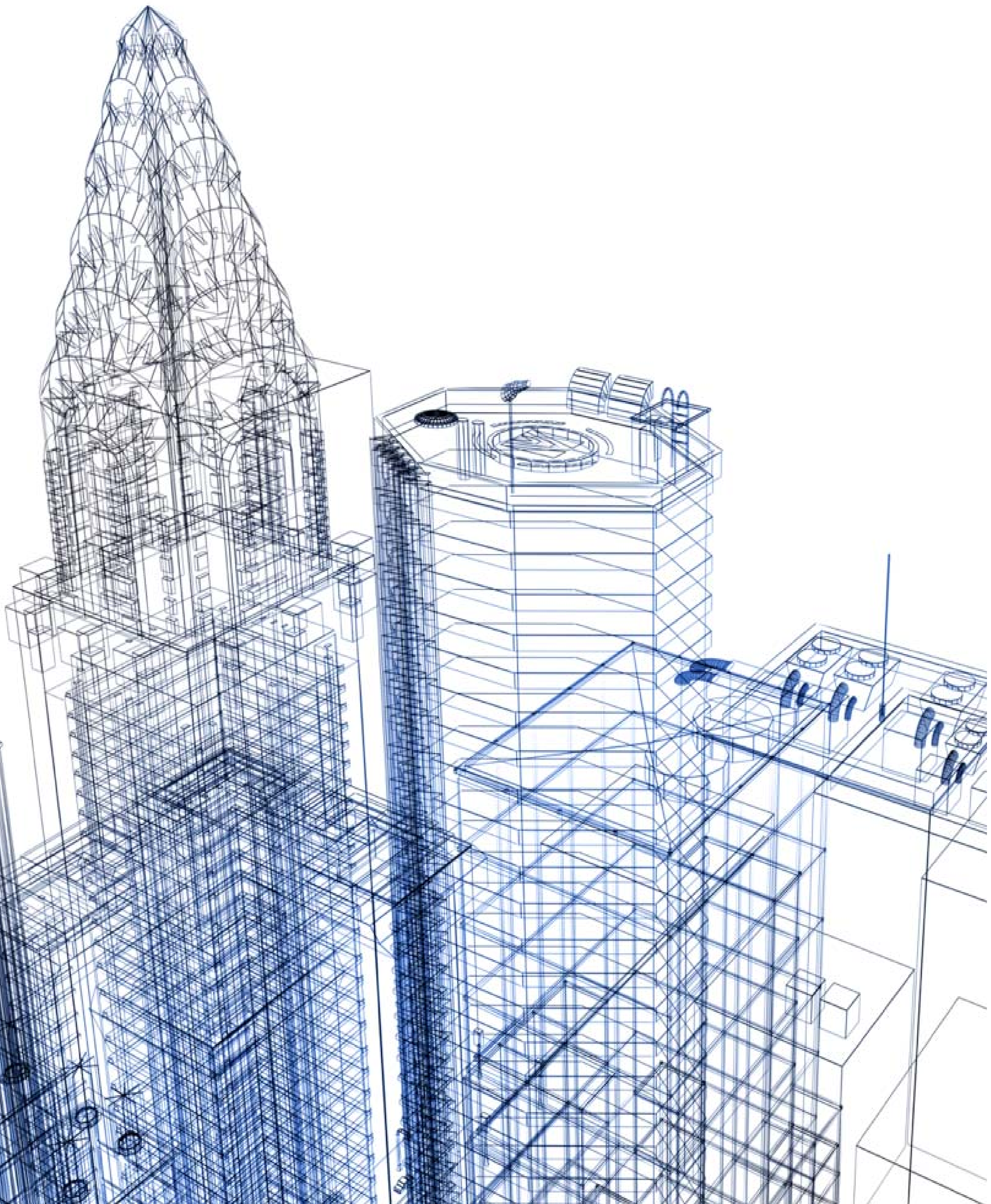
Prospects for M&A

Deal volumes will continue to increase, but this is firmly a buyer's market. Trade buyers will use their strengthened balanced sheets to drive growth with multi-service and TFM providers in particular continuing to consolidate regionally through infill acquisitions of new services and gaining fuller geographic coverage.

Valuations in emerging markets will continue to rise as good quality assets become scarce. Private equity investors are under pressure to exit their FM businesses, and we believe this will come quickly as M&A markets become more positive in the short-term.

6 Raising the Bar: Enhancing the Strategic Role of FM

Paul Carder, Director, Occupiers' Journal &
Johnny Dunford, Global Commercial Director, RICS



"How can facilities management improve the performance of my organisation?"

Senior facilities management professionals need to become more strategic in their thinking and actions if the sector is to be considered essential to boosting company performance and creating high performance organisations. This is the key finding of the report Raising the Bar: Enhancing the Strategic Role of Facilities Management produced by RICS and Occupiers Journal based on a survey of almost 400 FM professionals across six continents.

Heads of Facilities Management need to demonstrate how FM can directly impact activities, processes and people in an organisation to create new strategic value for customers. FM needs to become an essential business function which can boost competitive advantage, attract and retain talent and enable creativity and innovation.

This will not be a quick or easy journey and professionals involved in the sector must work to build multi-disciplinary relationships within their organisations while educating senior executives on the benefits of effective FM. To become strategic the over-arching goal of facilities management professionals must be to achieve a deep common understanding of the strategic imperatives of their organisation as a whole.

If this does not happen FM will continue to be considered a 'commodity' rather than a professional skill. This is characterised by organisations setting simple targets to freeze or cut facilities budgets without thinking about the chain of consequences to the workforce, work processes and productivity which will ultimately affect the bottom line – in this context, it could be said that the FM industry knows the cost of everything but the business value of very little.

To prevent this commoditisation of FM, professionals in the sector must work with senior executives to consider an organisation's business strategy and how it translates into tangible targets for facilities management. The global economic situation has put more emphasis on simple cost cutting without reflecting on the consequences. However, it is rarely enough just to have lower cost facilities than your competition.

Instead, senior executives and Heads of FM must work together to ask how the facilities function can strengthen the company's strategic positioning with customers, with employees (and potential employees) and with the communities where they are located or want to do business.

How can we bring about this situation? The survey used as the basis for Raising the Bar revealed six key points about the facilities management sector:

Facilities is increasingly being recognised as a strategic resource. The majority of facilities professionals believe that FM should have a significant strategic impact and some organisations are starting to include workplace issues in their executive committee discussions. Many of them also measure the impact of facilities on workforce productivity and corporate performance, but organisations that fully manage their facilities as a strategic resource are still in the minority.

FM has had mixed success achieving strategic alignment with other elements of the business. While there is seen to be alignment with finance, business units and corporate real estate, few Heads of FM believe they are well aligned with IT, HR or other central services. With the increase in mobile or flexible working, better alignment with IT and HR will be essential if agile workplaces are to be created.

Large, global organisations face dramatically different challenges than smaller, more local businesses – and they manage their facilities very differently.
Although there are differences relating to the scale of operations, the servicing of facilities is ultimately a very local business and while it may be possible to oversee the management of the facility from elsewhere it is impossible to clean or maintain a building remotely. The key

> "FM has had mixed success achieving strategic alignment with other elements of the business"

difference is complexity, as a large global organisation will have to recognise different legal, regulatory and cultural contexts.

Financial metrics and cost control continue to dominate FM.
Almost 80% of facilities groups are measured first on performance against budget and it does not seem to matter if FM is making the workforce more productive, helping attract or retain staff, or reducing environmental costs.

Heads of Facilities are still buried in day-to-day operational concerns.
The average Head of Facilities spends over 50% of their day dealing with day-to-day operations issues and less than one day a week devoted to strategy and planning. Although there is no simple way to avoid these issues as building operations are highly visible to everyone on-site – including the CEO - there are some steps that can be taken to help address them such as outsourcing.

FM career paths are undergoing significant change and the FM profession faces a potentially serious future talent shortage.
FM is becoming a more recognised profession which is playing a more strategic role. To go further, there is a need for professionals to develop multi-disciplinary skills that go beyond building engineering and maintenance; but few academic FM programmes recognise the importance of skills such as collaboration, delegation and strategy formulation.

What can be done to address these issues? Raising the Bar calls on Heads of Facilities to start thinking and acting strategically by having a deep understanding of the business, how customers make decisions and what services need to be provided as a result. Essentially they need to spend more time thinking about the future and less about the present while also visualising the linkages between FM and ultimate business performance.

To support this, Heads of FM should take some basic steps to free up their time for strategic issues. There needs to be a strong layer of operational management where management skills should be prioritised over technical skills: it may be better to have a strong manager with little relevant FM experience. Strong policies and practices also need to be put in place to define the role of FM in supporting the business. These practices must be spread through the business and actively enforced.

Most of all Heads of FM should aim to spend 50% of their time working with their peers in frontline business units and other infrastructure functions. This will be essential to understand the needs, work patterns and frustrations which will be important to help anticipate future requirements.

To free this additional time, greater use should be made of outsourcing operating routine functions to third-party service providers. Doing this will mean less time is spent 'fire fighting' and more time thinking about planning and strategic challenges. The Raising the Bar survey shows that there were greater levels of outsourcing in organisations where FM was operating strategically and where it was recognised as a strategic resource by senior executives.

FM has started down the path to becoming a strategic function that plays a clear role in delivering an organisation's corporate goals and overall business strategy. To fully achieve this transformation there will need to be an increase in strategic thinking and action among Heads of FM. There are steps that can be taken, such as outsourcing that will free up time to do this. However, a major change in mindset will be needed to move away from a focus on day-to-day building operations and reducing costs towards one that asks: How can facilities management improve the performance of my organisation?

7 Partnering for Outcomes: The Future for FM Contracts?

David Sharp, Managing Director, Workplace Law &
Bev Burgess, Director, Burgess B2B

"Outcome-based contracts are a natural element of strategic partnerships between clients and their service providers, predicted by many recent studies to be increasing in the FM sector"

During the first few weeks of 2013, Workplace Law conducted research into the use of outcome-based contracts in FM, as part of our ongoing investigation into how those working in the FM sector today can go beyond compliance and deliver real business value to their clients and stakeholders.

Outcome-based contracts are a natural element of strategic partnerships between clients and their service providers, predicted by many recent studies to be increasing in the FM sector. But there remains a degree of confusion about what constitutes an outcome-based contract and how this differs from contracts that are input- or output-based. They have been described as 'difficult to establish, difficult to measure, and hard to say if you've achieved or not'. So, do the benefits of such contracts outweigh these difficulties?

What is outcome-based contracting?

The traditional way to contract for business-to-business services is via an input-based service specification, whereby clients pay service providers to deliver a specified service to an agreed level. Output-based contracts are focused on paying for a deliverable. Outcome-based contracts exist where the client pays for the realisation of a business outcome.

Outcome-based contracts are not new, appearing in the US defence, health and transport systems first in the 1960s, and having been around in FM for at least a decade, with the most obvious business outcome regularly contracted for being a reduction in costs.

They have been used to contract for services that break the reoffending cycle among prisoners, to reduce drug taking in prisons, to get the unemployed back into work, to get children into foster care, and to roll out new pharmaceuticals. For FM services, business outcomes can include improving efficiency and costs, attracting and retaining talent, increasing compliance and reducing risk, and boosting reputation.

Pros and cons

There are many benefits to clients from this type of contracting:

- Debating the priority of different, sometimes conflicting, objectives helps to clarify your operating goals
- Risk is transferred to the service provider, and they can be held to account for failure to deliver
- They encourage more innovation on the part of the service provider
- The cost of monitoring and managing the day-to-day service delivery will go down
- They encourage stronger long-term relationships.

“Where the business outcome is clearly defined and agreed, and can be measured soon after the service is delivered, outcome-based contracts are appropriate and successful”

Service providers also benefit from outcome-based contracting through:

- Greater control over costs and efficiency
- The opportunity to demonstrate added value and differentiation, and
- Stronger, long-term relationships with the client.

However, moving to outcome-based contracting represents a significant change in mindset and culture on the part of both clients and their service providers. Clients, in particular, find it difficult to cede control and visibility of the day-to-day running of a service operation.

Service providers face a different challenge, that of the need to accept more risk, possibly combined with up-front investment. The higher up the business outcome sought is on the value chain, the more risk the service provider is likely to have to manage, and this can be a significant disincentive. There are also issues with other stakeholders who are needed to complete these deals, such as procurement and legal professionals. They may not have the right experience in outcome-based contracting, nor indeed the mindset to cope with the increased ambiguity a contract like this will represent.

These contracts are hard to make work inside organisations with shifting priorities and budgets. Similarly, where business outcomes just can’t be defined, the link between inputs, outputs and outcomes is poorly understood, or there is a lack of agreement on how to measure the outcomes, outcome-based contracts are inappropriate.

Clients need a clear strategy, well understood by the FM leader who is supported by strong procurement and a legal team able to think in outcomes, combined with a willingness to empower the service provider.

Where the business outcome is clearly defined and agreed, and can be measured soon after the service is delivered, outcome-based contracts are appropriate and successful.

The trend towards outcome-based contracting in FM is representative of its wider adoption across several B2B service sectors among both public and private sector clients. In FM, it is likely to become part of the professional competency set that service providers need to do business with sophisticated clients, particularly where those clients are looking for more strategic partnerships. It is also likely to become a key competency for ‘intelligent clients’ to possess.

8 Listening to the Workplace

Tim Oldman
Managing Director, Leesman Index

> *"FM is the lubrication that allows the engine to turn – engines need fuel to ignite, but FM is the oil that allows parts to move, impacting performance, efficiency, fuel consumption, emissions and engine longevity"*

Facilities management, it seems, is struggling to understand its position in the global workplace ecosystem, grappling with its own sense of scope, professional status, value and even title. In the panoply of FM events, journals and forums to which we contribute, it seems that the one elusive answer is to the question of 'real business benefit': what is it that FM really adds?

In any organisation that takes the role of facilities management seriously, the raft of services that FM manages means it is now a mission-critical provision. In these organisations FM is the lubrication that allows the engine to turn – engines need fuel to ignite, but FM is the oil that allows parts to move, impacting performance, efficiency, fuel consumption, emissions and engine longevity.

But as high performance synthetic engine oils replace traditional pure petroleum-based products, facilities management needs to consider how it can develop. It needs to recognise that there are other ways of doing things. It needs to innovate.

Willing to ask questions

This is no small ask. Let's face it: FM is not a profession to which innovators would be naturally attracted. And innovation itself is not easy. As renowned management theorist Peter Drucker noted, the skill of innovation is not in finding solutions; it is in asking the difficult and uncomfortable questions.

Innovators are, by nature, different. They have a bias away from the status quo and a dogged need to lift stones others would much prefer left undisturbed. This is why so many transformational workplace projects see design team and FM so readily at loggerheads. The designer's job is to innovate and advocate newness – the FM's, to defend stability and constancy of delivery. FMs are not hard-wired to embrace change, risk taking and mistake making - yet these are the personality traits of any innovation agent.

But if sanction for experimentation is what FM is looking for, then perhaps the approval is here. Not from misplaced rogue mavericks within the profession (or industry) but from their paymasters. Big business total facilities management (TFM) and integrated facilities management (IFM) tenders now routinely include innovation as a key contract deliverable: 'outline how you would propose bringing innovation into the partnership and how you would ensure ongoing innovation opportunities in service delivery, efficiency and cost saving'. These big-buck tenders not only require parties to demonstrate how their bid is innovative, but also how they will continue to be innovative if successful.

Willing to take risks

These clients recognise that whilst conflict among collaborators is unhealthy, differences in perspective are the core reason for outsourcing services. So if vendors must demonstrate newness to win, innovation is becoming key to their survival. Darwinian theory is not that 'the strong survive' (an inaccurate summing up of Darwin's work by contemporary Victorian philosopher Herbert Spencer), but that it is the adaptable that are most resilient and thus flourish and grow – those that can respond best to their changing surroundings.

“Analysis, examination and measurement of the status quo and the critical assessment of where improvement can deliver measurable business benefit, however small”

But what does it take to be innovative at something in which failure is so easy and visible? Innovation requires ingenuity, originality and inventiveness. It goes beyond requiring new ideas to solve existing problems, to seeking new ideas to improve processes or systems that are not even yet seen as deficient. It requires an honesty and open-mindedness to the idea that there could possibly be another way. It requires the analysis, examination and measurement of the status quo and the critical assessment of where improvement can deliver measurable business benefit, however small.

The challenge, of course, for the mighty TFM / IFM ‘partners’ is to test whether clients who claim their appetites are whetted by the concept of innovation actually have the stomach to experiment. But clients and vendors in these relationships also need to be open-minded to where small innovation can deliver big change. Glory and recognition may appear to lurk in monumental big ideas, but dramatic results can equally be found in minute process improvements.

In the US, where hospital C.difficile infections tripled in the last 10 years and 99,000 annual deaths are attributed to the 1.7 million hospital-acquired infections, an upward trend is being thwarted not by huge investments in new medicines but by the simple effective innovations around hand hygiene, delivering a 20% reduction in these numbers in the last two years.

Some of the most dramatic improvements have been achieved in institutions where rather than randomly plastering walls with even more hand sanitizers, wash basins and stark warning notices, infection control teams have instead invited clinical and support staff to offer their personal feedback on how and where they know improvements could be made. They have asked and listened.

Willing to listen

This is the theory of ‘positive deviance’ – the idea of building on capabilities and knowledge people already have in order to change processes, because good information exists deep in these organisational structures – it’s just hard to extract. These processes also build an engagement with those who would otherwise simply inherit the command to change. It is recognising that innovation can latently exist, albeit deep within an organisation.

FM is changing. The world of workplace has new pressures coming thicker and faster than ever before. Greater work location choice (eg teleworking), ever-broader improvements in technology mobility, increased awareness of health and wellness debates – all will provide new pressure for FM to innovate. But client organisations are ready to entertain innovation where it can be demonstrated to offer measurable business benefit.

So where FM is willing to measure its performance and engage in meaningful dialogue with its customers, it can start to understand where improvements will be welcomed and business-beneficial. There, it will also find business warm to experimentation, understanding the risks involved and ready to innovate.

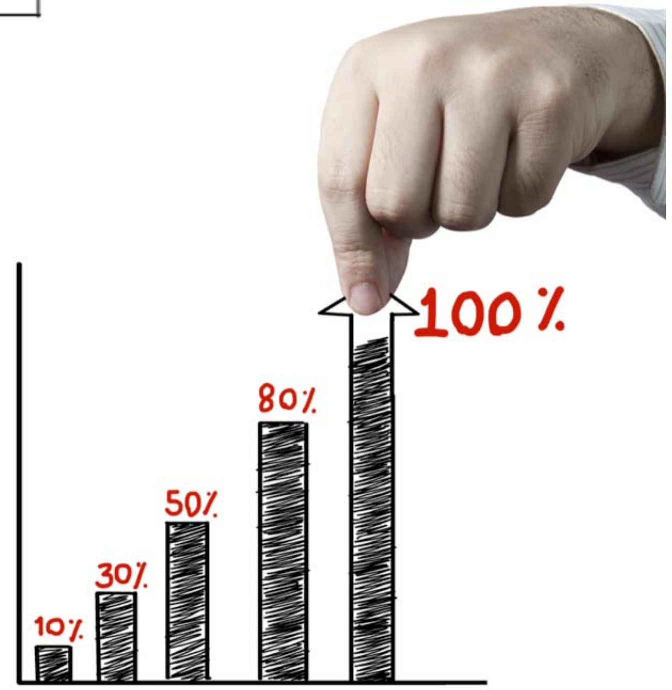
Dr Andrew Humphries
Chief Executive Officer, SCCI Ltd

Performance at a glance

Main Measures	Joint	Customer	Supplier
Overall	51	61	45
Focus	44	55	40
Performance	47	58	43
Communication	53	61	49
Reliability	43	54	37
Sustainability	66	77	54
Additional Characteristics			
Long Term Orientation		64	50
Interdependence		73	50
C3 Behaviour		59	39
Trust		70	52
Commitment		67	46
Adaption		66	56
Personal Relationships		48	38

- **Focus:-** creating a framework for successful FM relationships.
- **Performance:-** encouraging FM innovation and good practice.
- **Communication:-** transparency for FM success.
- **Reliability:-** ensuring effective FM processes.
- **Sustainability:-** valuing a lasting FM relationship.
- **Long-term Orientation:-** encouraging stability, continuity, predictability and long-term, joint gains.
- **Interdependence:-** loss in autonomy is compensated through the expected gains
- **C3 Behaviour:-** Collaboration, Co-operation, Co-ordination, joint resourcing to achieve effective operations.
- **Trust:-** richer interaction between parties to create goodwill and the incentive to go the extra mile.
- **Commitment:-** the relationship is so important that it warrants maximum effort to maintain it.
- **Adaption:-** willingness to adapt products, procedures, inventory, management, attitudes, values and goals to the needs of the relationship.

Bandings		
0-49:	Red	Urgent Action Required
50-59:	Amber	Corrective Action Required
60-74:	Amber/Green	Corrective Action Recommended
75-100:	Green	OK Unless High Priority



"A business to business relationship can be very hard to understand and control"

There are widely differing, often confused, views over collaborative relationships. The academic definition is 'the action of working with someone to produce or create something that neither of you could do alone (eg, 1+1=3, 4, 10...)'. FM relationships are the closest because the services provided are an integral part of the clients' business. Are they true partnerships where both partners fully appreciate each others' capabilities and contribution? Are they really creative for all sides stretching the objective boundaries to achieve greater benefits? Or, are they just marriages of convenience?

A business to business relationship can be very hard to understand and control. Traditional tools such as financial accounts, balanced score cards and KPIs don't seem to have the scope and reach to cover the activities, knowledge and communications that cross the boundaries between partners. Relying solely on these will allow problems to sneak up on you without notice. The result is fire-fighting: a tendency always to be caught on the back foot - and the consequent danger of trigger-happy commercial managers reaching for the contract penalty clauses.

Many organisations find it hard to realise that collaborative relationships reduce freedom of action and increase obligations. These cause tensions and over 15% of the value can be lost through inevitable friction. On the other hand, if you know how to measure and manage relationship performance, this 15% or more is there for the taking! Effective collaboration management thus becomes a significant competitive capability.

Using a model based on the thinking of 2009 Nobel Prize Winner Oliver Williamson, the dynamics of a business relationship can be likened to a spiral of knock-on effects with positive or negative feedback. At the optimistic end of the spectrum one good thing leads to another and progress can gain a momentum all its own, leading to teams working well together and openly discussing problems and opportunities.

However, if energy is not devoted to seeking continuous improvement, the tendency will be for things to slide either into a 'numb' state in between the spirals where the partners stick together for convenience or into a value-sapping decline where a costly, acrimonious divorce is a strong possibility. Measuring relationship performance in order to reveal the dynamics means discovering where a collaborative relationship sits between the two spirals.

Our tool collects data by surveying both sides which is then analysed to produce traffic lights and performance scores. These highlight significant features, differences and the highs and lows of key aspects such as operational effectiveness and communications. The results are enhanced by short, structured interviews that tell the stories behind the numbers. Joint, performance orientated recommendations naturally fall out of the process. It can be completed with minimal time and effort from the partners.

> *"Clients now want innovation and creativity. They want relationships that produce value through the exploration of new directions, markets, products and services. They don't want you just 'sticking to the brief' of the contract - no matter how good you are at it"*

A versatile tool, it can be used for a variety of purposes to build understanding and continuously improve the current operation. It has been proven in over 100 major relationships, and we have been able to identify trends and good and bad management practices.

Our research has found that things are changing in the FM world. Clients now want innovation and creativity. They want relationships that produce value through the exploration of new directions, markets, products and services. They don't want you just 'sticking to the brief' of the contract - no matter how good you are at it. This tool creates a joint, objective vision of the relationship which brings both sides to the table with a clear focus on creating value. Not only does it act as a catalyst to enable you both to expand your horizons, but it also allows you to measure, track and control progress.

Using this science we have adapted our tool to work in specific industry sectors. For FM, this has been labelled (by Martin Pickard) the FM Relationship Appraisal Tool (FM RAT), which has recently shown its mettle in a major FM provider/public sector client relationship. We would welcome additional feedback. Is this a useful way of achieving closer, more productive relationships with your partners?

10 Good Chemistry: A Strategic Partnership

Neil Murray, Managing Director, Sodexo Corporate Services IFM &
Nick Caton, Head of EMEA FM Procurement & Global Category Lead Energy, AstraZeneca

"Sodexo's strategy is focused on delivering 'Quality of Life Services' to everyone it serves, either directly or indirectly"

Over the past 20 years the facilities management industry has grown and matured, but it still struggles to get the recognition some think it deserves. What role does FM play in supporting a business to achieve its core objectives? Does FM take a lead or lag role when it comes to business strategy and execution? How does FM get taken seriously around the boardroom table?

Perhaps the answer lies in the value we seek to create and our ambition. For too long, service providers in the industry have been content to play a support role, but now we are starting to see some serious examples of the recognition of the value that facilities management can make to a client's business and its employees. AstraZeneca is an example of a global company that recognises the value of facilities management and is starting to realise the benefits. Here we look at the partnership between Sodexo and AstraZeneca and the value of cultural and strategic alignment.

The AstraZeneca strategy

Ultimately, the strategy of the business is to 'make the most meaningful difference to patient health through great medicines'. It's not instantly easy to understand how this can relate to facilities management. But after a period of consideration, it's not too long before it all starts to join up. If the facilities management team within AstraZeneca can make sure that the workplace of all employees is of a high standard, the facilities within the workplace are in excellent condition and the correct infrastructure is in place to support the business's facilities management requirements, then other areas of AstraZeneca are able to focus on the 'day job' and deliver the strategy.

A supplier ecosystem

The global FM procurement team at AstraZeneca has been able to support the delivery of the company's strategy by implementing a supplier ecosystem that drives best-value and performance. This collaborative partnership includes 16 strategic partners in the UK and is focused on developing shared behaviours. These behaviours support the top-level strategy through increased collaboration between suppliers to meet objectives while always working in the best interests of AstraZeneca.

In the case of Sodexo, delivering facilities management services to AstraZeneca is a hygiene factor – no more than doing what it should be doing. During the procurement stages, Sodexo went beyond being able to demonstrate excellence in each of the procured services and was able to demonstrate where it will add value to AstraZeneca in ways that align to the strategy through its commitment to innovation, collaboration and the development robust relationships.

Tailoring the solution

Sodexo's strategy is focused on delivering 'Quality of Life Services' to everyone it serves, either directly or indirectly. The alignment across both businesses is instantly clear. With both inherently focused on the consumer experience, Sodexo was able to work with AstraZeneca to deliver the added value elements of the contract and spend time truly understanding how the business can support AstraZeneca's objectives.

“The requirement for open and honest relationships is clear, but this requirement is ever-more dependent on mature conversations between competitors to support the greater good of the client”

The value

So where is the strategic value? This partnering approach has supported AstraZeneca in delivering its core business targets by:

- Delivering the right environment to attract and retain the best people
- Providing quality service that allows the broader business to focus on high value activities such as research
- Supporting the engagement of employees by improving employee wellbeing as a result of providing a positive working environment.

The lessons learned

There are lessons that the facilities management industry can learn from partnerships such as this. The requirement for open and honest relationships is clear, but this requirement is ever-more dependent on mature conversations between competitors to support the greater good of the client.

Through a mature approach to collaboration, the 16 suppliers in the ecosystem have been able to create a way of working that is mutually beneficial to all suppliers, reducing operational silos and developing a robust network that ultimately benefits the client.

Further to this, we must consider how we promote the value of the services we offer in order to ensure conversations focused on facilities management become commonplace in the boardroom. Facilities management is not a commodity – it’s a carefully considered and highly skilled professionalism – we just don’t celebrate this enough outside of our industry. Partnerships such as this can develop and other opportunities can come about as a result of the industry better communicating the impact of expert FM on the client business.

This partnership highlights the benefit of a B2C focus, rather than solely focusing on B2B. It is only by understanding the core business landscape of clients that service providers in the industry can add the value required to sustain long-term strategic partnerships with clients. If the customer is front and centre to a client’s strategy, surely that is what FM providers should be focusing on too.

11 Leading FM: Delivery in a Demanding Relationship

Chris Green, Managing Director, Arcus FM &
Simon Wetherell, Head of FM, Sainsbury's

> ***"The closeness and intricacy of the relationship cannot be overstated: with its customer sitting on its board, Arcus needs to deliver exceptionally high levels of governance and culture – it is the ultimate 'intelligent client' model"***

The relationship between Sainsbury's and Arcus is based on a fairly unique contractual relationship. The two parties have set up a joint venture for Arcus to provide FM services into Sainsbury's. The board of Arcus comprises executive directors from Arcus and non-executive directors from Sainsbury's, and there is a contract for Arcus to supply services to Sainsbury's via a long-term FM services agreement.

Arcus is a managing agent coupled with a significant element of self-delivery, whilst also providing additional added value services into Sainsbury's such as asset compliance management, refrigeration bureau and project management. Since start-up four years ago, Arcus has grown from around 220 employees to over 600. This growth is a result of increasing self-delivery, more channels and extra services.

Total FM expenditure is managed via an annual budgeting process that includes the Arcus element. Arcus is responsible for delivering the service within budget.

Profit is generated via a cost-plus risk and reward contract, where the budgeted expenditure is covered by the client, but all of the mark-up is at risk, based on a series of KPIs. These are set annually and provide the improvement focus for each year.

The closeness and intricacy of the relationship cannot be overstated: with its customer sitting on its board, Arcus needs to deliver exceptionally high levels of governance and culture – it is the ultimate 'intelligent client' model. Both client and customer understand each other intimately due to the closeness of the working relationship.

This relationship can be characterised by the risks, rewards and opportunities for Arcus, whilst for Sainsbury's the key elements are commitment, influence, and service and cost benefits.

The main risks for Arcus are its profit and the fact that its customer knows everything about the business – there is nowhere to hide. The rewards have been solid profitability, the stability of a long-term contract and significant growth. The opportunities for Arcus are to influence the customer on a long-term FM agenda and to have the chance to grow the business further as a result.

For Sainsbury's, the time commitment is on many levels with many inter-company relationships, and there are also complex responsibilities to resolve. However, the benefits in terms of service and cost over the last four year have been huge. Internal customer feedback on progress is possibly the most significant of all for a service-based retailer such as Sainsbury's

This is not a style of relationship for the faint-hearted. But for a client who has a significant FM spend, where FM is considered a strategic element of their service delivery and where there is a willingness to work in such an intense relationship, the rewards are significant.

Graeme Hughes
Chief Executive Officer, Innovise plc

"In this fast-paced age and disposable society, characterised by the explosion of an 'app' or 'Gen Y' culture, obstacles to business performance can often be overcome by a quick-fix solution"

Advocating the return to a more traditional methodology is hardly what you would expect to hear from a company that's all about innovation and the future. It may also surprise you to hear that although we believe in and champion the shift from archaic to modern technology, Innovise is actually quite fond of more traditional approaches to business relationships.

Why so? In this fast-paced age and disposable society, characterised by the explosion of an 'app' or 'Gen Y' culture, obstacles to business performance can often be overcome by a quick-fix solution. The motivation for business leaders to invest time into a more substantial and long-term answer is not one that is often promoted. Why wait when you can have it now?

Free at a cost

If you are running a business of scale these ill-conceived, hasty choices can actually cost you more than you think. Microsoft and some tech journalists recently revealed that 'free/low cost' technology can actually cost 20-30% more than 'paid for', 'enterprise ready' technology - and this is just at a software and licensing level (not including the additional and associated time and motion costs that will also fall into the mix). Strip away the marketing hype and scrutinise the reality surrounding the promise of a faster or cheaper solution and suddenly the 'quick fix' becomes far less appealing.

It is our opinion that although speed and innovation is crucial in the technology that is implemented to enable a business to grow, due diligence is the necessary flip-side of the coin. When it comes to establishing and maintaining a relationship with clients and suppliers, there is no short-cut. A strong supply chain partnership that will successfully weather the years is a critical factor in business today.

In a climate that is marked by scarce resources, increased competition, higher customer expectations and faster rates of change, many organisations are beginning to revert back to the old ways of working, turning to partnerships to strengthen supply chain integration and provide sustainable competitive advantage.

Good for both sides

According to research, world class supply chains benefit in many ways from collaboration - even in times of severe economic stress. These benefits extend beyond improved efficiency and effectiveness to include helping all the supply chain members meet customer demands, grow markets and increase market share.

The best supply chains have buyer-supplier relationships that are based on value and consistent delivery of this value. That value can be based on the combination of any number of elements, with consistently high service and quality being two of the most primary. It's what makes buyers increase their percentage of purchases from individual suppliers for the long run.

“It is clear that focusing on the long-game, rather than the quick-fix, sets an organisation up for a more sustainable future, with routine and familiarity being the keys to success”

A prime example of how we have been successful in building a strong supplier partnership is our ongoing relationship with one of the UK’s leading security service providers, Securitas. John Logie, Chief Technology Officer at Securitas, agrees that a good partnership is the key to future growth and service satisfaction: “Through our own experience, we know that a business relationship built on trust and mutual respect is far more productive and pleasurable to be a part of. Having worked with Innovise for many years, we have enjoyed the benefits of the direct correlation between the duration of the collaboration and the lower costs and enhanced return on investment that occurs from a long-term partnership approach.

“As a growing enterprise, our technology needs are a constant thought. It really does require a good partnership to be in place to ensure that our ongoing needs, issues and aspirations are always understood and dealt with. Enabling planning and implementation ahead of the curve, knowing your partner well makes for a very efficient way of working for both parties.

“Additionally, good partnering provides both parties with a way to leverage the unique skills and expertise of each partner, producing a mutually strong package that could work to effectively ‘lock out’ any competitors now and in the future.”

It is clear that focusing on the long-game, rather than the quick-fix, sets an organisation up for a more sustainable future, with routine and familiarity being the keys to success.

Long-term value

As with all relationships, at the beginning interactions are often fraught with inefficiencies, a lack of trust and expensive organisational idiosyncrasies. Twelve months on and procedures settle down and become more streamlined, with bumps in the road being smoothed over and interpersonal relationships between organisations becoming more efficient.

Increasing the benefits to buyers and sellers alike, it is ultimately the customer / end-user that will enjoy the perks of an established supply chain partnership…and after all, is this not the ultimate goal? Happy business partners, happy customers and finally a happy you - generating lower prices and a more efficient service, partners in a nurtured supply chain relationship cannot fail to increase their position in the competitive landscape.

13 Sustainable Supply Chain Management

Paul Worland
Director of Business Development, EMCOR Facilities Services

"Sustainable procurement is only going to grow from strength to strength"

EMCOR is committed to sustainable development and has some overarching aims that fall within this banner. These include minimising the demand for resources, reducing negative impacts and achieving greater diversity, fair pricing and labour practices.

The supply chain sits at the centre of this concept and is crucial to its successful delivery. If its constituents are not on board with the detail of sustainable procurement and what it means, then it is impossible to get to the next stage. It is therefore incumbent upon us to spell out what we expect from them and them from us. To facilitate this in the most expedient way we have developed a Sustainable Supply Chain Charter.

The charter specifically lays out the baseline standards that EMCOR expects from its suppliers. In doing this, it shows how sustainability is delivered through procurement. Key to its success is that the charter describes the sustainability impacts we wish the supply chain to specifically address and details what each element can individually do to deliver on the aspiration. For example, we will work with our suppliers to develop contractual arrangements that incentivise whole-life cost benefits. This encourages suppliers to choose low energy products, ones which for example are EU energy labelled or Energy Star rated thereby guaranteeing their energy efficiency.

Carbon footprint is also an important consideration that a supplier can assess across their operations. There is clearly low hanging fruit to be plucked here, but this will get harder as expectations and performance requirements rise over time. Therefore, we encourage our suppliers to work with us to look in detail at their operations to identify opportunities to reduce the environmental impact. One such review might focus on transportation and logistics so that better planning might help to get the best efficiency from delivery schedules. This would not only save on emissions but also cut costs. We have set targets for ourselves and the supply chain to reduce the amount of fuel used in transportation by 5% year on year. There are practical steps that can be implemented to achieve such a target; for example, we have implemented journey planning software which minimises journey length, resulting in lower fuel consumption.

The world's first standard for sustainable procurement, BS 8903: Principles and Framework for Procuring Sustainably, provides essential guidance to organisations wishing to adopt and embed procurement principles and practices. There can be no doubt that the introduction of BS8903 will help organisations considerably with ongoing sustainability challenges, and this is one of the reasons why EMCOR is planning to be an early adopter. However, the achievement of the standard will not be enough on its own. To ensure continuous improvement within the area of sustainability, it requires the ongoing commitment of an organisation, its staff and the supply chain itself.

There will always be a need for any organisation to set priorities when it comes to sustainable procurement, and we recognise that this may be a particular concern to SMEs who have less management resource to provide the necessary concentration and energy. The key, however, is to start the journey because sustainable procurement is only going to grow from strength to strength. Not only is it the right thing to do, fitting in many companies' view of corporate social responsibility but also, done correctly, it leads to a more efficient business that saves resources and therefore money – not only for itself but for its customers - which can be traced directly to the bottom line.

Dave Wilson
Director, Effective Facilities Ltd

Dave Wilson

"The industry has changed and flexed remarkably over the last 25 years - being responsive is not the same as being durable"

One of the many interesting points Jared Diamond makes in his seminal book 'Collapse' is that humankind's decision making is constrained by our perspective and our horizons of knowledge: current generations make assumptions that the world is as it always was and always will be because they lack a real sense of historical change.

Now, while Diamond may be talking about the environment, we can see the same behaviour in our economic assumptions, and especially those around how organisations work. Our collective shock at the loss of major High Street brands, for example – Woolworth, HMV and others - that had 'always' been present illustrates the phenomenon quite well: none of those institutions had a life of more than 100 years, and most much shorter. But they had become ubiquitous and had been around longer than most of their customers, so the assumption was that their presence was the norm. But, in fact, not only was their presence not the norm in any historic sense, neither is the existence of the High Street as a concept, since it didn't exist as we see it until the early 20th century.

More pertinently for facilities management, the same point might also apply to offices, which really didn't exist as stand-alone functional structures until the late 19th century, when Taylorism, together with universal education, led to the combination of a demand for a specialised bureaucracy with a supply of literate and numerate workers. But we might learn some lessons from the crumbling High Street and wonder whether offices and the organisational structures they embody will really continue ad infinitum - and perhaps therefore whether FM as we know it has a long-term future.

While I think that we can say that ossification is not one of our problems – the industry has changed and flexed remarkably over the last 25 years - being responsive is not the same as being durable; and one risk that flows from that is a potential want of clarity of purpose, both in the industry's (collective) minds and in our customers'.

I believe that lack of clarity is one of our biggest threats as an industry, and I want to look at four ways that it is manifest and consider some possible solutions.

Taking things for granted

To begin with, let's consider five issues of FM mythology – those things which we take for granted that might not actually be supported by the evidence.

First, corporate social responsibility and sustainability. Despite plentiful high profile evidence of aberrant corporate behaviour - and not just Starbucks, Google and Amazon and their issues with tax, but also lots of other employers taking the recession as an opportunity to attack employment rights, contracts, pensions, or to short-cut on environmental improvements – we continue to act as if CSR was critical for organisations. While I fully support the idea that it ought to be, and while I continue to believe that FM is uniquely placed to deliver on these issues, it seems plain to me that most commercial organisations are not seriously committed to this agenda – by which I mean that they are happy to do it if it costs nothing, but not to invest in creating sustainable outcomes. We can find exceptions, I am sure, but I'd suggest that they are just that, exceptions.

Next, the FM industry keeps claiming to offer something unique, but never seems quite sure what that is. Given that FM is a 'portfolio' industry, drawing together numbers of pre-existing specialisms, viewed from outside the confines of the world of FM it's hard to see how what we do can possibly be unique. I suspect that our customers don't see FM in at all the same light we do, which ought to be of concern to all of us.

Part of that problem, I think, is that the industry is too inward looking and inadequately customer-focused. That's shown by two common and related behaviours which I see in both internal FM teams and the outsource supply chain: we treat achieving compliance as if that was adding value, when it does nothing of the sort – indeed most risk mitigation doesn't directly add value. And we report what we do as if maintaining process integrity equated to some kind of achievement, when I would argue that actually it's the de minimis outcome a buyer of FM might expect from their provider.

Another bug-bear is our insistence that 'people are our most important asset'. You might hope that a service industry like ours didn't feel the need to state this obvious fact with such pride. But then you might also hope that the statement would be backed up by real actions. Yet across the industry our training record is abysmal, in terms of outcomes and spending; our staff turnover is too high at all levels; and there is almost no consistent progression and development of staff through the ranks to managerial positions.

But there is something fundamental, indeed structural, underlying all this which I think does not excuse it but makes our problem more intractable: tendering. For now, let me simply say that the 'mythology' involved here is that buyers act as if tendering is an objective process which delivers the best result for them. That it is isn't objective and rarely delivers the best results is something I'll come on to shortly.

Another major issue afflicting the industry is, in my view, quite simply a lack of brand confidence. That applies both to the customers' view of the industry – 'facilities management' is a confused, confusing tag that doesn't carry a single sense of values, concepts, product or outcomes to our clients and customers – and within the industry across the supply chain. Put bluntly, the companies we are all familiar with don't have brands; they have logo's. It's hard to think of a single FM service provider whose brand carries any meaning or values to customers. And while some might argue that this is a result of us being a B2B industry, I'd counter that PwC has a brand, JLL has a brand, Steelcase has a brand.…

Of course, to go back to our staff and teams, again tendering is part of the problem because regular TUPE transfer of teams inevitably works against the transmission of and belief in a company's brand values. Staff inevitably become disengaged from their nominal employer and cynical about such values, so it's hard to really build genuine brand commitment under those circumstances.

Related to that point, the service providers also make their own brands more dilute by agreeing to bid for parts of the FM service package – how can either FM or your brand be conveyed effectively if you only sell parts of it? Surely FM is about integration of all the key service lines? What buyers do is a bit like buying an engine from Audi, wheels from BMW and a car body from Nissan, and then complaining that it doesn't all fit together – but the supply chain colludes in that by bidding for these incoherent packages, or even single services, which makes one wonder what the 'management' element of FM actually stands for.

Lastly on the issue of brands, I think there is some evidence that when tender opportunities are declined by vendors, it is more often because of either the value of the package or their lack of capacity to deal with more bids, than because the opportunity doesn't match their core sector or market targets. In other words, we don't decline bids because the work or client doesn't match our brand's value set or strength.

Taken together, all this shows our mutual lack of confidence in the FM brand and our own brands.

My third point is that there is fundamental inconsistency across the industry. Indeed, we can't even agree whether it is a profession or an industry or a discipline. Internationally, we can't agree whether it is called facility or facilities management. These things matter to prospective buyers who aren't steeped in our world. But it gets worse. We don't agree on terminology – there's no consensus on the difference between TFM, integrated FM, principal contractor, managing agent.… The terms get used differently by different people at different times depending on their agenda. We don't agree on basic structures around our services: everyone uses different contract costing models, different service levels, different packages.… There's no meaningful benchmarking or performance measurement system, and no agreement internationally on core management competences or on qualifications.

Worse still, everyone talks about 'best practice' without anyone being able to show what it is or how they can demonstrate it – even assuming that buyers actually need it or can afford it in the first place. Overall, this is shambolic. But is not the worst thing, in my view, because we can work to change this. The final of my four problems is much more difficult for us to resolve.

Competitive tendering - there are two benefits that tendering is supposed to deliver: probity of process and value for money. These are both important and I don't want to suggest that there is no place for tendering in the market. But I do feel that its routine use as the sole method for procuring FM services is futile, expensive, time-consuming and destructive, and that nine times out of

ten it results in a decision that the buyer team reached regardless of price and prior to final presentations. I'd also suggest that the nominal savings, especially on second-generation contacts onwards, are far outweighed for the buyer organisation by the cost of the tendering exercise itself; that the supply side is saddled with massive costs in the bidding process which they then have to recover from the contracts they do manage to win; and that because contracts are generally too short in duration tendering destroys the supplier/buyer relationship by creating mistrust throughout the contract. And finally, there are no guarantees of benefits for the buyer organisation because contracts are based on unenforceable SLA's lacking meaningful performance measurement or reporting and with a lack of clarity on either (or both) the original base costs or the resulting contract costs, exacerbated by constant changes in client budget, portfolio, service scope and so on. In short, competitive tendering is a counter-productive means of procuring support services, whose only beneficiaries are client procurement professionals and sales teams (and occasionally, consultants like me!).

Taken together, my four problem areas add up to one simple statement: the FM industry as a whole currently has no meaningful value proposition for its clients or customers. That is a serious and shocking position, 25 years or more into our existence.

Where do we go from here?

So what can we do about this? Let me posit four broad solutions which I think the industry as a whole needs to debate and develop.

Firstly, we need to be brave with brands. Primarily, we need to stop misusing the term 'facilities management' itself and get some consistency in how it is presented and described. Service providers need to better understand where they really add value and focus on that as a USP, portray it consistently and build genuine capability to deliver on that brand promise. They may need to be more focused on pursuing only those opportunities that match their brand values. It could be that there may be a need to develop sub-brands just like the hotel or food service sectors have done. And buyers need to accept that there are not hundreds of options in the market which suit their needs – the genuine options are usually relatively few in number. They therefore need to articulate those needs more clearly and select vendors on their ability to deliver outcomes to meet their needs cost effectively.

Allied to that, we need to adopt standards, most especially for the routine work-a-day activities across the industry. There isn't scope for brand differentiation on compliance, nor is there any justification for constantly re-inventing the calculation and presentation of costs or service levels – in fact, those are counter-productive for all sides because they cost time and money to adapt to and the differences obscure actual performance. So we should work on common industry standards – agreed by both buyers and vendors – for costing models, presentation of specifications of service, service levels, contract terms, management information, performance measurement and reporting. All these things are expensive to create and completely avoidable if we use published standards, and the vehicle to do that exists through the CEN and ISO bodies.

Doing that would allow us to go further, and create a platform from which we could replace tendering with *processes like competitive dialogue* or benchmarking as the means of demonstrating value for money. Collaboration across the industry and from major organisational occupiers of space would allow us to build and publish cost data balanced against service quality levels to show the 'market' benchmark without the need for tendering. Procurement can then focus on the best fit between buyer and vendor while ensuring that decisions are still based on sound objective criteria. Formal competitive tendering would thus be limited to specific scenarios – for example, a new building, new acquisition, entry into a new territory or a new configuration of services, rather than being a one-size-fits-all solution deployed for all procurement.

From that position, I believe that we could confidently restate the industry value proposition. We can:

- Reduce costs (buy economically)
- Improve efficiency (aka 'do more with less')
- Improve productivity (that is, create effective facilities)
- Deliver the CSR agenda
- Reduce organisational risk
- Support agile solutions for the changing world
- Be the source of expertise in all these areas.

To do all this, we must change the way we behave. In-house FM teams, buyers and service providers all need to collaborate and trust each other much more than at present. We must begin to produce commonly understood outcomes, demonstrably and objectively measured, which relate to the needs of the organisations we serve. Our staff must become better trained and motivated. And we must focus on the value-add from our activities, not on commonplace compliance.

If we can't manage all this, we run the risk of going the way of the High Street chains that failed to adapt. Let's not go down that path.

15 Acknowledgements

www.workplace-futures.co.uk

Each Workplace Futures conference programme since the launch of the series in 2007 has tackled a different issue in the FM sector; but an underlying theme throughout has been the comparatively low 'name recognition' that continues to characterise facilities management, along with the associated tendency toward under-appreciation of the value it both represents and contributes to UK plc.

The goal of the conference series, and each post-event White Paper, is to address these challenges by fostering education, discussion and positive action that supports the growth and development of FM.

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