

Commercial property strategy drivers

The Future of Facilities Management





“Today’s challenge isn’t about saving a few thousand on a cleaning contract. It’s about reducing the size of the estate by 20%”

EXECUTIVE SUMMARY

During the first quarter of 2013, MITIE commissioned an independent qualitative research programme among senior property and facilities directors across the UK to develop a closer understanding of the issues and opportunities they face. These are the findings of Peter Smith who undertook the research on behalf of MITIE.

The research identifies a number of pressing issues.

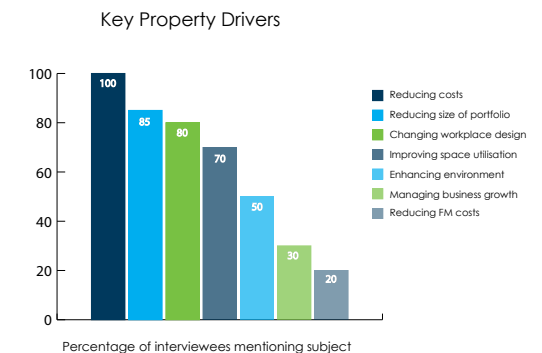
Over the next few weeks MITIE will be launching a series of debates with industry leaders which dive deeper in to each of the main themes from this research.

To join in with the MITIE debates, please email themitedebates@mitie.com

The details and methodology are described in the next section, but the most interesting aspects to come out of the research can be summarized as follows. While many of these will not seem revolutionary, their implications are significant:

- By far the most powerful driver of property management decisions is the need to reduce total occupancy costs. However, penny-pinching suppliers in a 'race to the bottom' is turning out to be seen in practice by many as a false economy.
- Outsourcing as a means of reducing cost is becoming less popular than as a way to harness expertise that might otherwise be less effectively delivered.
- Companies are becoming more interested in exploring opportunities to consolidate multiple services from single suppliers as a way of improving value.
- Business practices, such as agile working and increasing use of mobile technologies, are substantially reducing the need for large office establishments.
- Commercial property structural requirements are evolving substantially in the light of new business and social practices.
- Facilities Management providers are beginning to change their approach to move away from being seen as a pure commodity service.

- Energy and carbon consumption are playing a growing role in property decisions and strategies, with a pragmatic effort to drive down both.
- Although outsourcing is not necessarily always the right answer, increasingly companies are finding that the ability to bring in specialist suppliers, particularly where complex technologies or services are concerned, does pay dividends.
- There is a significant consolidation opportunity for service providers able to deliver an integrated package of broad property services.
- Contract negotiations will evolve from a confrontational to a collegiate approach, as companies seek to work more in partnership, particularly through gain/share contracts.
- Focusing on SLAs and KPIs is being rapidly replaced by a focus on outcomes.



ABOUT THE RESEARCH

Timing

The research programme was designed to elicit in-depth qualitative views from a group of over 30 industry leaders across both public and private. Fieldwork took place in Q1 2013.

Methodology

All interviews were conducted face-to-face between January and April 2013 and followed a similar structure, with the interviewer being able to explore specific areas in depth as each interviewee saw fit.

This approach has yielded a gold mine of interesting feedback and comments, which will be further explored in a series of strategy guides and debates to be produced in the coming months.

Interviewees

All those interviewed are at senior management level and significant budget holders. Generally titles are Property Director or equivalent. Several have requested that their comments are not attributed or that their names are not published, often due to confidentiality and endorsement policies at their companies.

We have included a list of participants who are happy to be named at the end of this report.



FACILITIES MANAGEMENT AND THE CORPORATE LANDSCAPE

Outsourcing has become big business, yet is still a relatively young industry, with many of the main service providers less than forty years old. One of the longest established drivers for outsourcing is management of complex IT estates, but in the last three decades it has become received wisdom that hiring in a specialist to deal with most of the non-core issues of a business is both commercially and operationally more viable.

Today it is normal to find that external organisations supply a wide range of services to large enterprises. The public sector in particular has led the way with the outsourcing of many 'core' services, including the running of schools, care services, and even doctors' surgeries.

It is rare today for a large business to 'insource' many support services. In the course of this research we have met companies that have no internal service provision for any operations, from mailroom, through catering, cleaning, security and property management, to IT, energy and even managing the company car fleet – all of which is leased!

However, since the crash of 2008, corporate thinking has turned a sharp focus on every aspect of business operations, including whether the best value, as opposed to cost, is being achieved. This spotlight is also raising questions among customers as to what is the most effective approach – should multiple services be bundled together by a single provider, or is better value achieved by having a group of single-service specialists?

MATCHING THE CUSTOMERS' OBJECTIVES

Almost without exception, interviewees expressed a major concern that the current, procurement-led approach to letting outsourcing contracts is in danger of becoming outdated. Several of those we interviewed have recently let substantial contracts, and in the words of one "decided to get away from counting the number of times the loos were cleaned, and focus instead on keeping the toilets clean."

This is moving the goalposts significantly from the current approach of detailing service levels and Key Performance Indicators to the nth degree, as favoured by procurement specialists, and moving the discussion more towards an outcome-based approach that encourages the best performance from the service provider.

A strong wish that many interviewees expressed is a desire for a more proactive approach from service providers. "We want them to help us do our business better," was a commonly expressed sentiment, with the corollary acceptance that this meant moving away from the current service delivery model and encouraging service providers to take a more proactive role.

"The current approach to procurement, with cut and paste responses to ridiculously complex ITTs just isn't sustainable."

IMPLICATIONS FOR THE FM INDUSTRY

In many cases the current approach to pitching for FM contracts doesn't reflect that suggested by the interviewees, but can perhaps best be summarized by one interviewee's experience of a response to tender that, 'detailed not just the price of each toilet roll, but how many we would be allowed to use before we'd be charged extra.'

Clearly, while that approach may find favour with those who do the books, their colleagues in property directorates would prefer a much more open and balanced discussion.

However, they are also realistic about the likelihood of this happening - a common thread among interviewees was a desire for a much higher level of involvement between sales teams from service providers and their potential customers, to improve understanding of their businesses and how to best work with them.

One example of this that caught our eye was the recent letting of a country wide bundled FM contract by the Nuclear Decommissioning Authority covering 20 different locations and 30 services. As part of the pre-bid process the NDA set up a series of 'Industry Days' where potential bidders were invited to tour different premises and take a detailed look 'under the hood', with presentations from all those who would become customers.

The exercise helped all those bidding to develop a detailed understanding of precisely what would be involved in the contracts. The NDA went to a great deal of trouble to ensure that every aspect of the contract was fully understood by all those bidding, which provided a double benefit - those who went on to put in a tender were fully appraised of the risks and requirements, and were able to make realistic and deliverable bids. At the same time several others who realised that they were not 'best fit' suppliers ruled themselves out of contention, and saved the procurement team the task of evaluating their bids.

Many interviewees admitted that by focusing on least cost provision, 'we get the services we deserve'. This heralds a potential opportunity for FM providers to drive a significant re-shaping of not just the engagement process, but the whole warp and weave of service delivery.

In the customers' ideal world, the security man, and the cleaner would come with the requisite training and tools to not just report a light bulb out of service, but actually repair it on the spot.

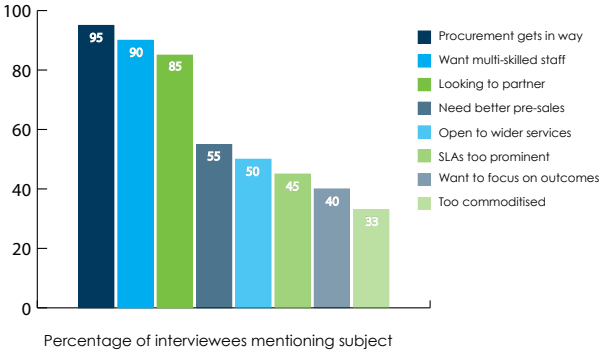


“This heralds a potential opportunity for FM providers to drive a significant re-shaping of the whole warp and weave of service delivery”



From the FM industry's perspective, this represents a major opportunity. However, many of those interviewed admit that they do not encourage this approach under the current way of letting contracts. Several commented that customers themselves are often at fault for focusing on the minutiae of a contract as a way of driving down price rather than focusing on the required outcomes. The complexity of the purchasing process also plays into this - many individuals can become involved once the decision has been made to seek a new supplier. In the worst cases, this can mean that many of the original aims have been subsumed by the time the specification reaches the procurement department.

Outsourcing Services
Why the current approach is sub-optimal



HOW PROPERTY STRATEGIES ARE DRIVING CHANGE

The last decade has seen dramatic shifts in attitudes towards work with the introduction of significant parental leave rights, the removal of mandatory retirement and the emergence of corporate social responsibility as a topic for boardroom discussion. In addition, workers now enjoy far greater career mobility than at any time before. Today a prospective employee will examine their prospective employers' social aspects with as much care as they check out promotion prospects.

During the early 'noughties' this led to a widespread growth in the provision of additional facilities within the workplace, ranging from high-quality catering, through crèches, rest rooms, shower facilities and prayer rooms. All of which add cost.

But balanced against the need to create an ever-more attractive working environment to assist in staff recruitment and retention, the collapse of the western economy in 2008 brought the need to contain all operational costs into sharp focus.

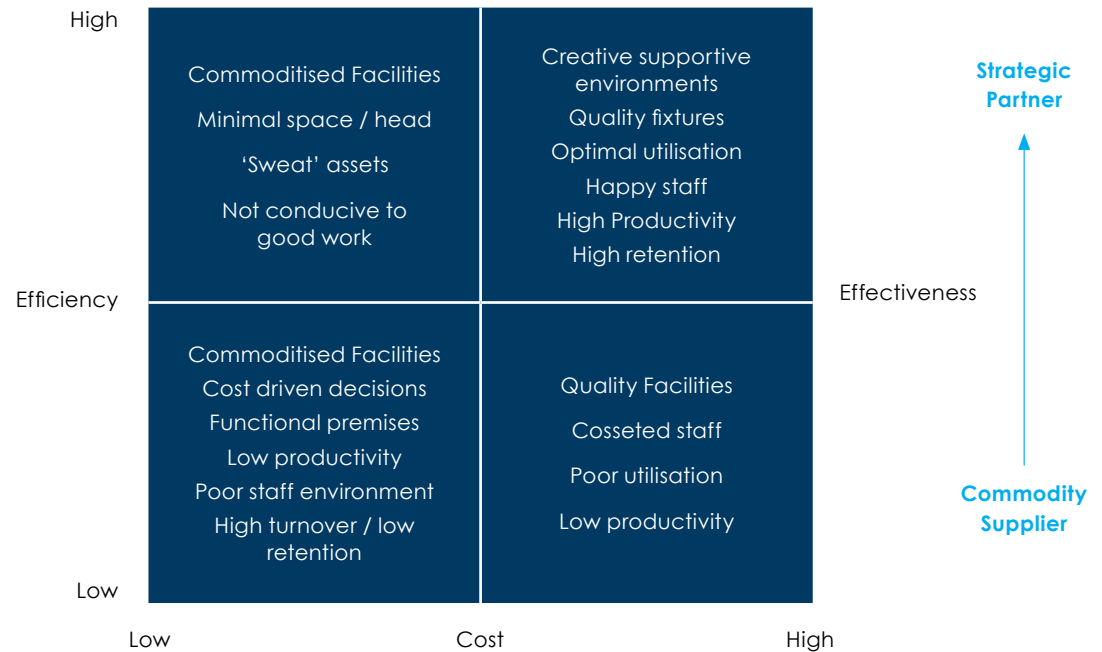
Property Directors find themselves between a rock and a hard place – striving on the one hand to provide an effective working environment, while on the other facing a need to reduce budgets.

One of those interviewed raised the interesting suggestion that companies tend to focus too strongly on the extremes of efficiency and effectiveness, often to the detriment of each other.

He believes that the relationship between these factors and costs can be best expressed in a 'Quadrant,' where increasing efficiency contributes to lower cost, but makes the environment a much less pleasant place to work.

Another common thread to come from interviewees was the suggestion that rather than focus on saving a few pence on the cost of maintenance bills, they'd be much more likely to get the CFO's attention with a plan to reduce overall estate size, and costs, by ten, twenty, or even thirty percent. This in turn is driving a need for better information to make more effective decisions.

The balance between effectiveness, efficiency and cost, as identified by one of the respondents.





“they’d be much more likely to get the CFO’s attention with a plan to reduce overall estate size by thirty percent”

HOW DATA IS DRIVING DECISIONS

One of our first interviews was at AstraZeneca, where Andrew Glennon, their Global Commercial Real Estate Director, gave us an insight into the exceptional level of information that the company gathers about premises operating costs.

Using an extremely sophisticated CAFM application, Andrew can bring up any one of the company’s global premises and identify in near-real time the operating costs, both in terms of fixed costs such as rental and business property taxes, and variable costs such as services, utilities, maintenance and facilities management.

Armed with this level of detail, it becomes possible to benchmark every aspect of a property against all others in the company’s global portfolio, and base occupancy and disposal decisions on hard numbers. Like many of those we met, Andrew is in the middle of a consolidation programme seeking to significantly reduce the company’s overall property footprint.

THE ROLE OF TECHNOLOGY

The corporate mantra has long been to do more with less, and in this respect information technology is driving progress at an ever-accelerating rate. Looking around current generation offices, such as EasyJet’s UK Head office, KPMG’s HQ and PwC’s new headquarters at 7 More London, one of the most striking aspects is the lack of fixed IT.

While buildings designed as late as a couple of years ago still build in all the infrastructure paraphernalia required to manage large fixed cable computer networks, the arrival of high capacity wireless networks, combined with the explosion in the use of mobile devices is rapidly reshaping the technical requirements of many organisations.

Even where companies are still reliant on having people working at desks, increasingly large floor and desk PCs are being replaced by laptops and tablets that can be taken anywhere in the building.

One of the interviewees we met during this research mentioned that they have just signed a seven-year FM contract and that they are “looking forward to a period of stability” as a result.

Another pointed to how the dramatic evolution of technology in just the last five years would render any infrastructure design that would have worked seven years ago redundant today. To confirm this point, he then proudly pointed out that in the architect’s plans for their new headquarters building “there isn’t a single suspended floor.”



“We designed the building for 6,500 people. Today over 10,000 use it, yet occupancy averages 85%”

THE IMPACT OF AGILITY, MOBILITY AND GENERATION Y

Perhaps the largest change in workplace etiquette of the last decade has been the introduction of agile, home and mobile working, combined with a wholly different approach to life brought to the workplace by the 'millennials' or 'Generation Y' as they are known.

'Gen Y' covers those in the workplace between the ages of 21 and 33, so includes people who are now becoming middle managers, as well as the crop of graduates so eagerly sought by leading employers.

They are characterized as being wholly familiar with mobile IT – to the point that their iPhones are seen as an extension of their personality. Practically the first thing they do on waking is to check their Facebook pages – a behaviour almost wholly alien to anyone over 35.

Responding to their views that a workplace should be as modern and trendy as the coffee shops and bars they frequent, is placing a significant pressure on property directors. One solution that has seen wide acceptance is to re-shape the catering facilities, with some large organisations boasting food courts that wouldn't look out of place in an upscale shopping mall.

Others haven't gone so far, but alongside the introduction of 'chill out spaces' and 'informal meeting zones', we see the arrival of branded coffee outlets in company premises. As one interviewee described it, the 'Costa on every Corner' syndrome.

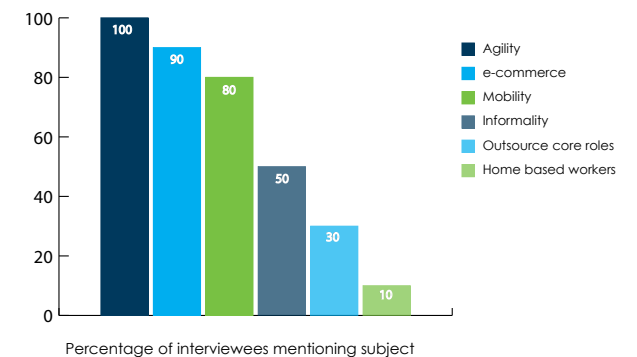
Of course all these modifications are much more easily achieved in new builds and major refurbishment programmes. Network Rail's new headquarters at Milton Keynes provides an environment that is comfortable and welcoming to all generations, and both KPMG and PwC's new office buildings feel more like a cross between a five star hotel and Google, than the operational headquarters of two of the world's largest accountancy firms.

Like these leading professional services providers who have redeveloped in the last few years, companies creating an environment that supports agile and mobile working are finding that one of its most successful aspects is reducing staff to desk ratio. By introducing a hotel office approach, PwC has been able to dramatically reduce its desk count compared to the number of employees working from the office, and achieves an enviable 85% average occupancy rate despite fluctuations in headcount.

KPMG also enjoys a similar average occupancy rate, and confirms that this kind of approach leads to far more effective usage, with a peak ratio of 1.7 people per desk showing the efficiency that effective building planning and management is capable of delivering.

While several of the companies we met have achieved this tricky balancing act with panache, others struggling with large estates of legacy buildings, and a continuing demand for every person to have their own desk, are finding it more challenging.

Key business enablers for companies



THE IMPACT OF THE GREEN AGENDA

No company in today's business climate will consider ignoring the need to reduce its carbon and energy footprint. Many of those we met commented that the millennials in particular are very environmentally conscious. It is often the younger staff that lead initiatives to reduce waste, often driven by their personal beliefs. Reducing costs becomes a valuable side effect, rather than the main purpose.

However one element of the research that has screamed out is that companies are refusing to be driven into making expensive changes to their current infrastructures just to satisfy, in one respondent's words 'the agenda of a few headline grabbing politicians.'

Across the entire footprint of our interviewees there is no benchmark. All those interviewed accept that reducing carbon consumption is desirable, and many have implemented processes and structures to try and make more efficient use of energy and materials. Hardly any of the premises that we visited did not have T5 tubes or LED lighting, with about half of these, especially in meeting rooms, controlled by proximity sensors.

We did see some extremely innovative projects, with one building regularly putting more energy into the grid than it takes out, and another with a combined heat and power plant using 'spare' heat to keep 1,500 local residents warm in winter. However, only those who have either commissioned a new building, or are involved in the refurbishment of existing premises, have instituted significant energy harvesting programmes.

The subject of BREEAM ratings came up amongst all those who are involved in large construction projects. Achieving a high rating is seen as a mark of good corporate social responsibility, and can show a powerful return on investment when being incorporated to new builds. However, several interviewees admitted that the costs of going for the top rating aren't always justified by the return on investment.

For those not involved in major developments, very few of the low-energy innovations required to be a 'green corporate' showed a sensible return on investment.

It seems that when it comes to the environment, commercial pragmatism trumps social conscience every time.





“many of the contracts being signed over the medium term will be wholly different from those let today.”

THE FUTURE FOR OUTSOURCING

As already mentioned there's a sea change coming. For perhaps the last twenty years companies have turned to outsource service providers primarily to help them reduce costs, although, as many admitted, this has often meant outsourcing a problem rather than solving it.

The FM industry as a whole hasn't yet made it to the top table. Unlike the large professional firms, management consultants, and even IT providers, FM has long been seen by its customers' senior management as a commodity service that can be procured on a tight SLA and least-cost basis.

However, at least among the people we interviewed, there is a growing realisation that FM providers increasingly represent the 'feet on the ground' of an organisation. They are the people who deal with planned and unplanned maintenance, have to deal with the comments and complaints of the staff at operational level, and as such have their fingers well and truly on the pulse of their customers' enterprises.

This gives Facilities Management providers and specialists an unrivalled opportunity to increase their value to organisations by using a mix of experience and feedback from customers' sites and utilising the wealth of data they capture about operational costs and premises efficiencies.

By analysing this information and using it to identify opportunities for improvement and efficiency increases, FM providers and managers can fill the gap between what is happening on the ground and the management information needed by the board to ensure effective operations.

This in turn will change corporate perceptions from FM as a commodity service to an integral part of business operations and effectiveness.

The factors that are driving an overall reduction in the amount of space per capita required by organisations, such as technology, mobility and agility, are just as cogent to the FM industry as to its customers. But the industry needs to examine how it can add genuine value rather than just deliver to an agreed service level.

To achieve this, the FM industry needs to change its focus from the minutiae of contract terms and conditions to building programmes based on delivering a quality of service that goes beyond basic commodity delivery. We're already seeing contracts being let that are based on outcomes rather than KPIs. We've also heard from several customers that are actively seeking to introduce target costings and gain share arrangements, and enjoying a closer relationship with FM companies that are responding well to these opportunities.

One thing that has become very clear, is that many of the contracts being signed over the medium term will be wholly different from those let today.

THANKS AND ACKNOWLEDGEMENTS

In compiling this research we have been hugely assisted by some of the most senior and respected members of the commercial property community. As already mentioned several have asked to retain their anonymity for commercial and confidentiality reasons, but we'd like to publicly express our thanks to:

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Essex County Council

Huw Thomas

Head of Property & Facilities
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Nigel Bunclark

Head of Property and FM
Network Rail

Alastair Young

Head of Property Europe
KPMG

Huw Llewellyn

Head of Property & FM
Admiral Group

Malcolm Carter

Head of Property
Bestway Group

Paul Harrington

Director of Real Estate
PwC

Martyn Jeffrey

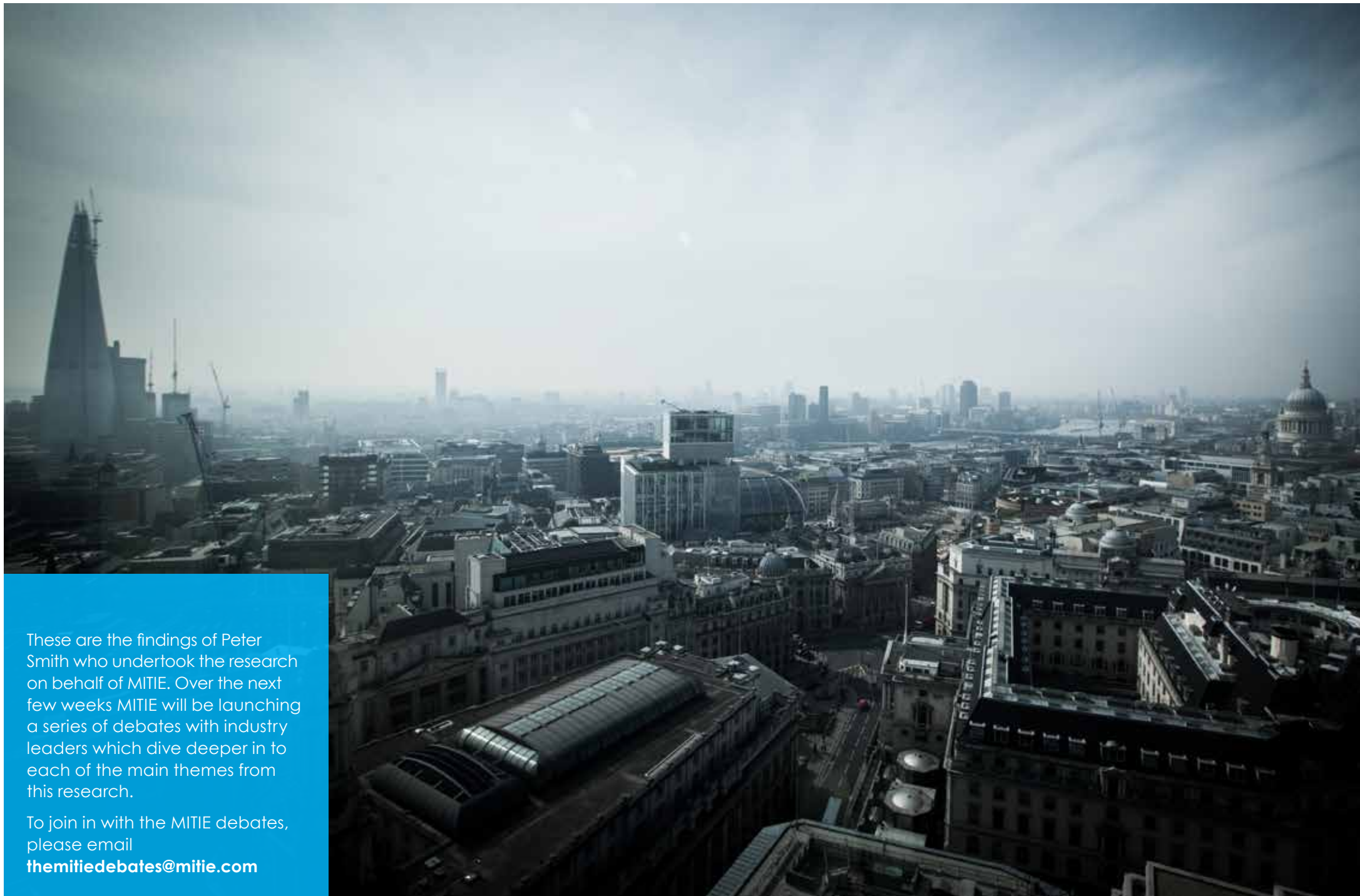
Director of Estates
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Allan Dunne

Sellafield



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