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Six emerging trends in facilities management sourcing

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Outsourcing, workplace strategies, and technology innovations hold immense potential for companies seeking to reduce costs and improve productivity in facilities management.

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For companies with distributed operations—retailers, manufacturers, transportation and logistics—facilities management can represent 10 to 25 percent of total indirect spending. Several recent developments, including fears of a recession, trade conflicts, tech disruption, and rising wages, have made cost cutting a higher priority in this area. But business leaders must strike a tricky balance to reduce noncore costs without affecting the performance of core operations.

Companies have no shortage of options at their disposal to optimize facilities management expenditures. Outsourcing is a well-established strategy that's on the rise thanks to an influx of vendors, while integrated approaches to facilities management, workplace strategy, and technology all hold promise. The global market for in-house and outsourced facilities management is estimated to reach $1.9 trillion by 2024. The outsourced segment accounts for more than half the total and has attracted a growing number of vendors with new service offerings. Still, charting a clear path forward—one that enables companies to extract the most value—is an increasingly complex task.

How should companies proceed? As a first step, executives must familiarize themselves with how six emerging trends could reduce facilities management costs and improve productivity. The first three involve the application of existing strategies and approaches; the second three involve using technology to transform the way companies complete tasks. However, these trends aren't plug and play; companies must have the right strategy and capabilities to get the most from them. Facilities management and sourcing leaders should focus on several immediate steps to mobilize their organization and pursue these trends.

The evolution of facilities management strategy

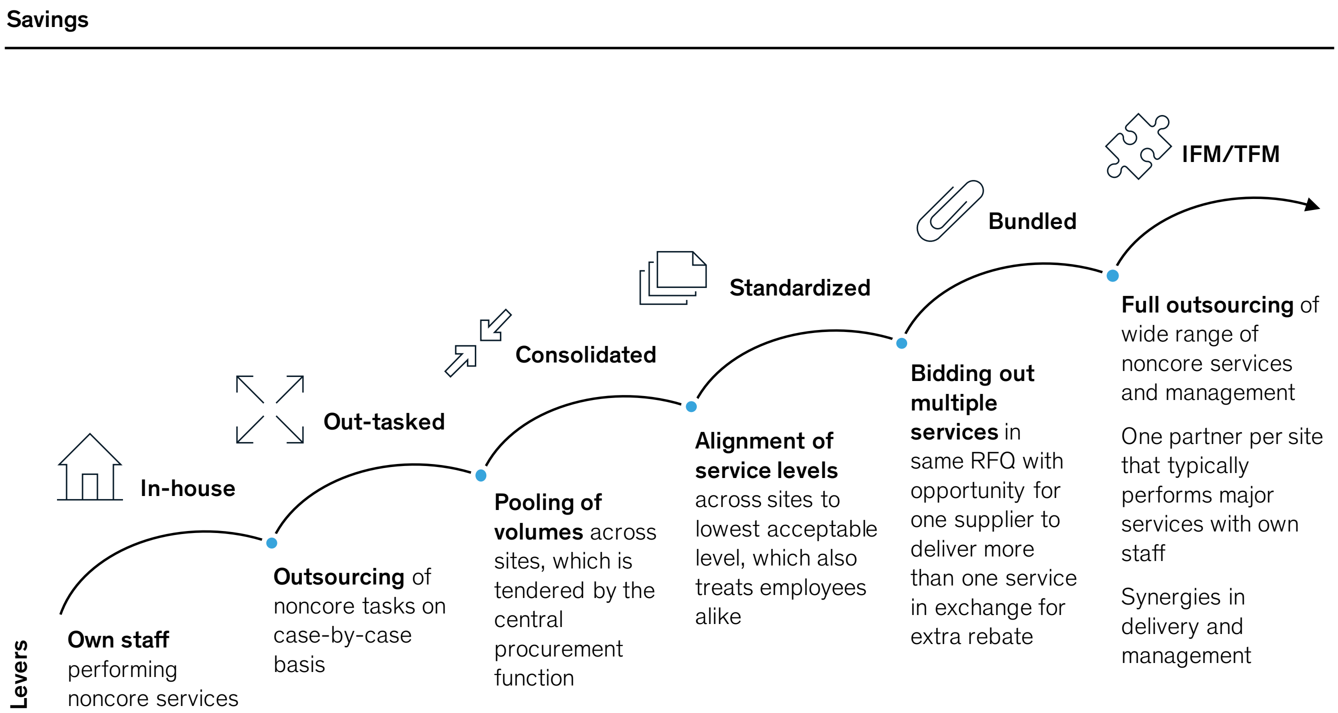
When facing ongoing pressure to reduce operating costs, companies tends to look for savings without giving much thought to the long-term repercussions. This dynamic makes facilities management a particularly ripe target. During challenging economic times, companies trim facilities management budgets; once the outlook rebounds, spending levels often remain low. This pattern can lead to deteriorating conditions of buildings and equipment, potentially costing more in the long run.

Over the years, industries have accepted outsourcing as a viable option to non-core operations, including facilities management. Companies typically follow a progression that begins with outsourcing noncore activities at individual locations (Exhibit 1). The consolidation, standardization, and bundling of these tasks across facilities over time results in the outsourcing of a comprehensive set of noncore services and management to third parties.

Several economic factors have made outsourcing more relevant for facilities management. Growth is slowing across several large countries as they reach the tail end of current economic cycle. Far-reaching global trade conflicts have created unexpected changes in commodity and finished product prices. Meanwhile, increased tech disruptions in a handful of industries are pushing legacy companies to free up cash for technology investments. Last, lower unemployment rates are pushing wage rates higher for the best talent. Thanks

Exhibit 1

Typical evolution of FM approach over time



to these developments, the total market for facilities management (both in-house and outsourced) is expected to grow at more than 6 percent a year from 2018 to 2024, hitting nearly $1.9 trillion (Exhibit 2).

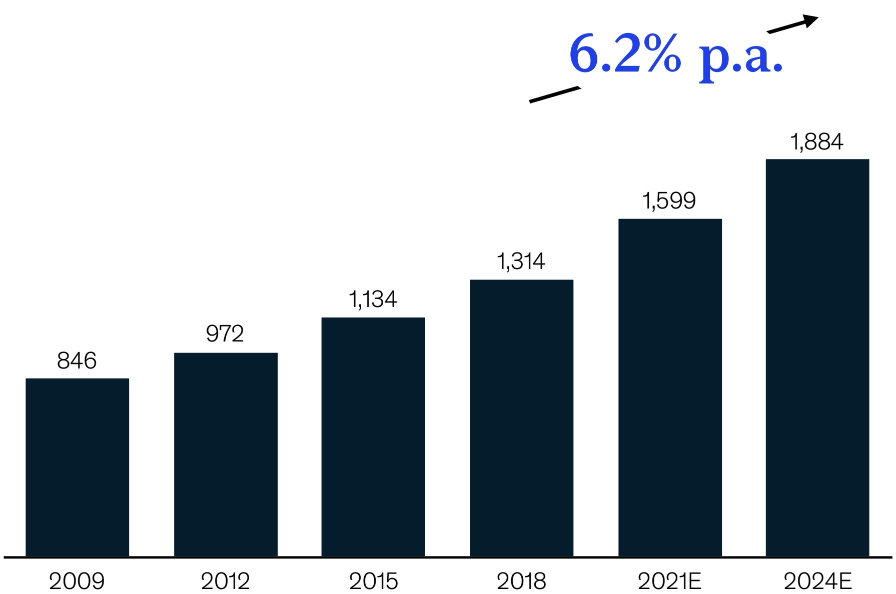
Facilities management is ripe for disruption: it lags behind other functions such as production equipment maintenance by both digital maturity and penetration of technology. Although technology is available for facilities management, several obstacles have inhibited adoption, such as a lack of digital skills within the function, other priorities for leadership, and a focus on continuous cost cutting. These factors have made the facilities management outsourcing market attractive for leading vendors that were already engaged directly or indirectly with this function. Several incumbents have developed an integrated facilities management offering in an effort to capture a greater market share.

Exhibit 2

Companies are increasingly outsourcing facilities management

Global market outlook (in-house and outsourced FM spend)

USD billions



Source: Frost & Sullivan; GlobalFM analysis 2018; McKinsey

Six emerging trends

We have identified six trends that offer cost savings or productivity improvement opportunities now or could transform facilities management over the next decade. Since the attractiveness of each trend will depend on an organization's needs and capabilities, the trends are presented in a manner to facilitate evaluation and comparison.

Case example
One large retailer was seeking to prioritize tasks that could be handled more cost-effectively by a third-party vendor. Its team compiled a list of categories that should be kept in-house as well as those to outsource. In-house categories were determined based on which ones could be handled through a shared-services model with high utilization of internal labor. Outsourced categories were defined by current specifications and, separately, by the essential level of service for the organization. It put out an RFP for the outsourced categories with two types of specifications and then selected suppliers that best matched the retailer's needs. This approach reduced facilities management spending by 15 percent, which was reallocated to support the organization's investment strategy.

15%

reduction in facilities management spending from outsourcing

1. Outsourcing facilities management

Organizations are evaluating their operating model to maximize value creation. Before they outsource facility management to third parties, however, they review the appropriate mix of insourcing and outsourcing based on capability, cost, and coverage. Several factors are altering the equation.

— **Growth in outsourcing.** Outsourcing has now surpassed 50 percent of the total facilities management market in several regions, including Europe, Middle East, and North America.

— **Industry-based adoption.** In manufacturing companies, soft services such as landscaping and janitorial are preferred categories for outsourcing. Hard services such as utility equipment maintenance are typically still insourced. Meanwhile, retail, banking, and other non-manufacturing industries are looking to first optimize their operating model by balancing insourcing and outsourcing. If the benefits they achieved are not significant, some players in these industries have opted to fully outsource facility management.

— **Penetration of integrated facility management (IFM).** IFMs are capturing increased market share in outsourcing, particularly in North America, where IFMs are close to 20 percent of the outsourced category.

Implications

— **Cost:** Is your operating model optimized and peers still have better cost performance?

— **Competitive advantage:** Does facilities management provide a competitive advantage over peers?

— **Organizational capability:** Does the company have experienced personnel in facilities management with intrinsic knowledge of the location as well as highly efficient internal technicians that would be challenging for a third party to match?

2. Integrated value and related services

Companies are exploring the integration of facilities management and related services in an effort to streamline management and improve performance. This offering can include the following functions:

— Real estate. This category includes all services related to transaction management, project management, and other services.

— Facilities management. All of the tasks that are involved in maintaining a facility, such as equipment maintenance and building services.

— Energy management. Activities focus on the conservation of energy, including retrofits and procedural changes.

— Production maintenance. The maintenance of production equipment comprises areas such as assembly stations, process equipment, and testing stations.

— Employee services. Services for employees could include mailroom, fitness center, and cafeteria and food service.

Implications

— Decision making is easier, as fewer people are involved.

— A comprehensive view of all services with fewer providers eases the management of these categories.

— Suppliers that provide integrated services can become strategic partners for organizations.

Factors to evaluate if the organization should pursue an arrangement with an outsourcing integrator:

— Cost: Are costs higher than benchmarks for peers?

— Geographic portfolio: Does the company have a diverse geographic footprint?

— Property portfolio: Is the property portfolio diverse?

— Organizational capability: Does the real estate function have limited capacity or capability?

Case example

A global financial institution was spending $450 million annually to maintain its thousands of locations around the world. Its fragmented supplier base included more than 10,000 vendors across about a dozen categories. To assess opportunities for outsourcing, the institution undertook a scoping and prioritization exercise, sought to gain greater transparency into spending categories, applied advanced sourcing techniques, and invested in stakeholder management. With the insights gained from this process, the company was able to consolidate its facilities management spending from dozens of suppliers to just one vendor, while standardizing business processes and service quality. Adopting integrated facilities management helped reduce costs by more than $150 million over three years.

3. Workplace strategy

Workplace strategy is becoming a key tool to enhance employee engagement and retention. It includes several different categories:

— **Modular workspace.** Workspaces can become more modular and activity-based to increase agility and flexibility with changing workforce while decreasing total square footage.

— **Coworking.** Coworking provides flexibility in selecting the type of space and period of occupancy, which can offer cost savings.

— **Lifestyle amenities.** Lifestyle amenities such as yoga, meditation, daycare, recreation rooms, and nap areas have become common features to enhance employee experience.

— **Wellness designs.** Companies can invest in workspaces with appealing acoustics, lighting, furniture, and flooring, among other features.

Together, these categories form options along the continuums of space and well-being (Exhibit 3).

Notably, trends in this category can increase facilities management costs (for companies that choose to invest more in workspace design), but they could also indirectly compensate for these outlays with higher employee productivity.

Implications

— When considering workforce strategies, companies need to balance employee engagement and workplace investment.

— Organizations are increasingly looking for suppliers that are capable of maintaining an evolving workplace.

Factors to help organizations determine if revamping the workplace is right for them:

— **Geographic portfolio:** Is the geographic portfolio of facilities fragmented and consistently changing with customer location?

— **Employee productivity:** Is current employee productivity lower than peer benchmarked levels, and would wellness design and lifestyle amenities have an impact?

Case example

One energy company sought to trim its real estate costs while implementing workplace strategies that would maximize its use of space and accommodate evolving employee needs. It pursued a range of densification initiatives, including doubling up offices for employees of specific positions, converting excess conference rooms to offices, and reducing office sizes for certain functions, such as accounting or reception. It also created "hoteling" zones, where employees could secure workspaces on an as-needed basis.

Through these approaches, it increased the number of available seats by nearly 60 percent without expanding its footprint. As important, an internal survey found that employees viewed this reconfiguration favorably.

Exhibit 3

Space

Fixed

Traditional cubicles

Modular workspace

Coworking

Flexible

Wellbeing

Not explicitly considered

Traditional setup

Lifestyle amenities

Wellbeing designs

Addressed through REFM

4. Internet of Things (IoT) evolution
A number of trends and developments are spurring the adoption of IoT-enabled equipment by facilities management across a range of applications.

— **Energy efficiency.** The implementation of IoT devices, such as motion sensors for lights and automated temperature controls, enabling more visibility into energy usage and management.

— **Occupant experience.** This factor could be a contributor to the adoption of IoT.

— **Computing.** Data transmission costs are determining whether edge, cloud, or hybrid computing approach will prevail.

— **Stack ownership.** Companies are trying to own multiple layers of IoT stack. Hardware infrastructure and/or software are emerging as preferred ownership models.

— **IoT security.** Security is lagging behind the development of IoT devices and platforms.

Implications

— Companies have to upgrade or retrofit legacy systems before facilities can benefit from IoT.

— Lingering skepticism about IoT's impact means that organizations will have to develop multiple use cases to demonstrate the impact of these technologies on occupant experience.

— Companies should consider partnering with suppliers that have an end-to-end IoT vision and the capabilities required to convert this vision into reality.

Executives should consider the following factors to determine if now is the right time to adopt IoT for facilities management:

— **Cost:** Is the cost of IoT conversion in facilities comparable to current expense of maintenance and operations?

— **Change champion:** Do IoT initiatives have C-level sponsors beyond the CIO?

— **Device compatibility:** Can systems be retrofitted with IoT technology?

— **System compatibility:** Is the building management system (BMS) capable of integrating with devices and software? Does the organization have the data management and security capabilities necessary to support IoT-equipped devices?

Case example

A mining company sought to increase rig uptime and reduce maintenance spending, which accounted for 25 percent of operating expenses. An analysis determined that top drive and pipe handling accounted for 40 percent of all downtime and 10 percent of all maintenance spending. It then conducted a thorough "digital teardown" to estimate specific opportunities in predictive maintenance for each component. To support a predictive maintenance deployment, the company focused on five building blocks:

— Strategy

— Technology

— Capabilities

— Organization

— Processes and procedures

Its efforts paid off handsomely: the company created an end-to-end system with real-time data collection, storage, and processing to enable predictive maintenance. These capabilities enabled it to reduce maintenance spending by 27 percent while increasing revenue from services thanks to higher reliability.

Case example

Leading companies are in the process of integrating robotics into their facilities management operations for tasks such as floor cleaning, window washing, and power washing. Innovations in early stages of development include robots for security patrol, lawn mowing, and snow removal, among other tasks. The promise of such robots is threefold: beyond the opportunity to reduce operating expenses, these machines could free up existing staff to focus on higher-value activities while mitigating some of the risk associated with these tasks.

5. Advent of robots

Robotic automation is well suited to take over repetitive and hazardous tasks. Thus far, Asian and European companies are leading in adoption of robotics for services such as cleaning and security; widespread adoption could occur within the next decade.

— Repetitive tasks. Activities that follow the same process every time, such as sweeping a floor, are prime opportunities to integrate robots into operations. Several companies are currently designing and building robots to automate repetitive tasks such as power washing and lawn mowing.

— Hazardous tasks. The use of robots for certain jobs—for example, security patrol or HVAC duct cleaning—could enable companies to reduce costs and risk.

Implications

— Applications of robotic process automation are still in the early stages for facilities management.

— Repetitive and hazardous facility management tasks are prime for disruption by robots.

— Organizations can pilot robots for repetitive tasks or partner with suppliers that have expertise in the deployment and maintenance of robots.

Factors to evaluate if now is the right time to invest in robotic automation:

— Cost: Is the cost of owning or leasing a robot less than current costs?

— Market support: Has a service supply chain for the equipment been established?

— Effectiveness: Is the quality of work similar or better than current processes?

— Technology maturity: Will current technology change dramatically in the short term?

Advent of robots for services such as cleaning and security

6. Augmented reality

Technology players are developing end-to-end AR solutions that have the potential to transform facilities management.

— **Hardware.** Smartphones and tablets are dominant in the hardware market, while wearables are still in low levels of market penetration.

— **Content source.** Information is limited to content pulled from maintenance manuals and through user interaction. Content sources from IoT-based devices are also in the early stages and would ideally be enhanced further by data collected from IoT sensors.

— **Interaction.** Information can be visual, instructive, or interactive. Technologies are developing across all areas, but visualization is currently the most mature.

— **Mapping.** While mapping is still limited to spatial tracking, marker-based and shape imposition technologies are being developed.

— **Software development kit.** SDKs are well developed for consumer applications such as gaming but are still in the early stages for facility management applications.

Implications

— Augmented reality is still in the early stages of development for facilities management.

— Organizations would have to coordinate across several functions to use AR effectively.

— Companies should work with partners that are actively engaged with AR providers and pilot technology when the market is ready with a solution.

Factors to evaluate if now is the right time to implement AR:

— **Market support:** Has the service supply chain of hardware, software, and content been established?

— **IT infrastructure:** Has IT infrastructure been developed to support AR on a few controlled applications?

— **ROI:** Does technology have a good ROI when considering technician time, number of visits, safety, and ease of process use?

— **Workforce skill level:** Is the current workforce sufficiently technology savvy?

Case example

Companies are experimenting with various applications of AR to support workers in selected tasks. A remote assisted maintenance toolkit, for example, includes endoscopic and thermal cameras, a microphone, and a portable computer. With these tools, the equipment operator can connect remotely to an expert, who can guide him through the maintenance procedure. AR maintenance also offers operators support through an integrated helmet with special glasses and software that details proper maintenance procedures.

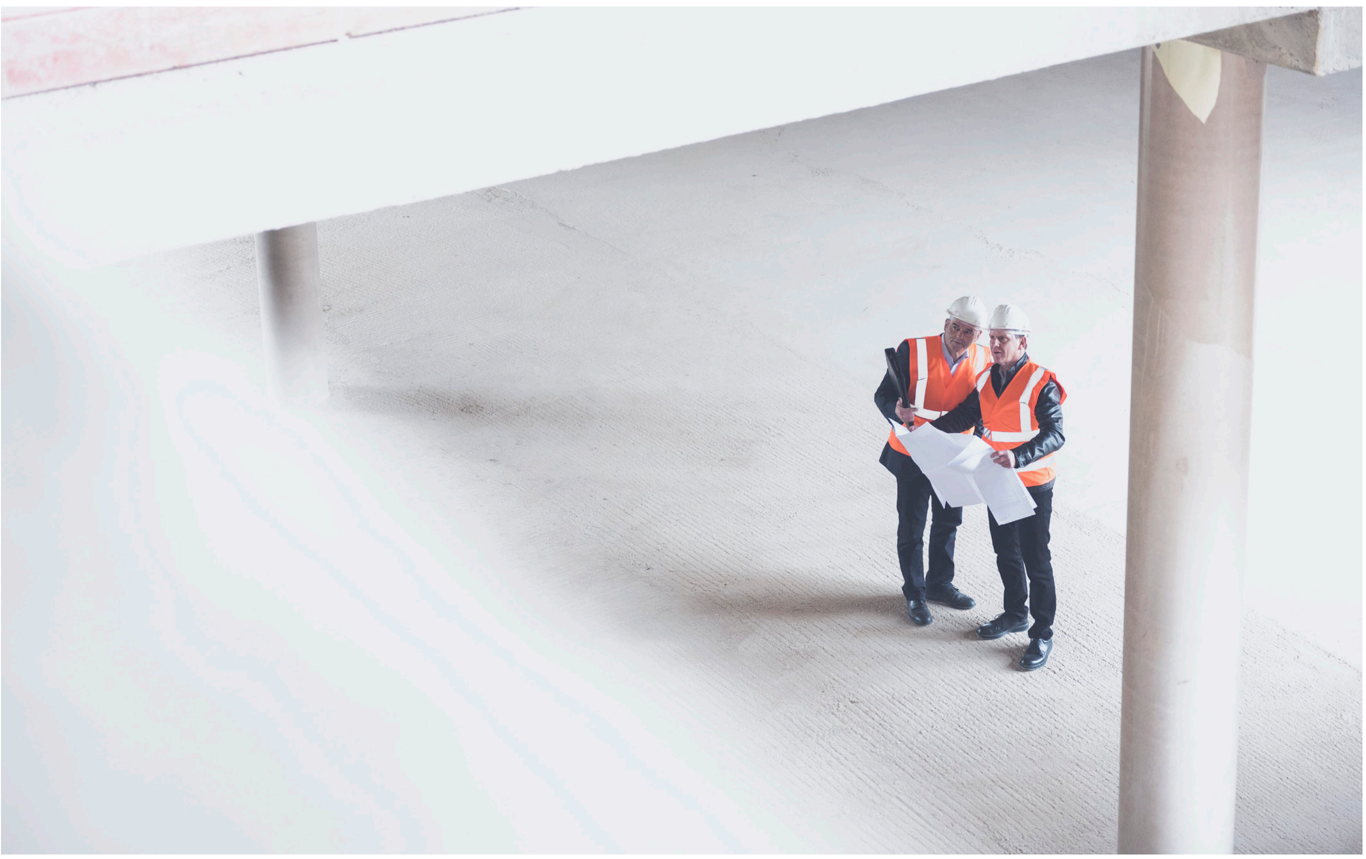
Actions companies can take now

Facilities management leaders can't simply flip a switch to harness these trends. Some companies will need to adjust their strategy, organizational capabilities, and culture. And considering that a few of these trends are still in their infancy, executives should focus on laying the foundation. Several actions can help.

6 actions to take now

Elevate facilities management to a C-level priority (with a focus on COO/CFO engagement).
Many industries have traditionally kept facilities management on the backburner, but this category can be a goldmine of savings. One company, for example, was under pressure to reduce costs, but the procurement team was skeptical of addressing facilities management because of sensitivities within the organization. The indirect procurement team asked for support from the CPO and COO to back a transformation of facilities management, and this support created an actionable pipeline of savings for the next three years.

Establish a cross-functional team.
True cross-functional collaboration between procurement and operations is required to create sustainable impact. Companies should form a team that includes the COO, CIO, a facilities management leader, a strategic sourcing leader (for facilities management or innovation), and a project management office leader, among others. Without



alignment, facility management initiatives face a difficult path. One company's procurement team identified savings during the RFP process and moved to adopt integrated facilities management, but some stakeholders were not on board. During implementation, an operations team found that the prescribed specifications were not aligned with its equipment. Within a few months, the IFM contract was nullified after some heated conversations between procurement and operations. In another company, procurement leaders were adamant about pursuing IFM. Although it was the right strategy, they first sought to gain alignment and support from the operations team before the process kicked off.

Assess the organizational maturity and capabilities needed to manage vendors and support digital technologies.
Capabilities, both from a relationship and content standpoint, are important. Vendor relationships can be built by acting on stakeholder satisfaction surveys, organizing joint meetings with suppliers, and managing supplier performance as a team. Organizations can develop content-based capabilities by introducing supplier-led training on digital technologies and investing in external expert trainings. For instance, a client set up a meeting cadence between suppliers and stakeholders to identify and address issues every quarter.

Build the business case for investment in selected trends.
Companies can support the adoption of emerging technologies by doing controlled pilots. Projects that apply augmented reality to simple tasks and experiment with IoT can get the organization acclimated to technology. Successful pilots can provide the business case for scaling; a similar rationale can be used for opportunities to integrate robots. The hotel industry, for example, is adopting robots for bell service and housekeeping through pilots in certain hotels.

Partner with IFMs and set up a robust governance mechanism.
A company can view IFM suppliers as a partner to achieve savings and manage portfolio, but it must first establish a robust governance mechanism to maintain trust with suppliers. A regular auditing cadence can ensure that any savings are contributing to the bottom line. In addition, companies should make decisions collaboratively with IFMs on topics such as specification standardization and computerized maintenance management system (CMMS) technology. At one manufacturer, a factory manager set up a regular auditing cadence to review IFM initiatives with the finance team to ensure that savings flowed to the bottom line.

Design an implementation road map.
Companies should develop a comprehensive, long-term category strategy to incorporate all facilities management trends. A sequencing exercise can help companies to prioritize initiatives. Since technologies will continue to evolve, facilities management leaders should establish a regular strategy review process of all categories to refine and hone their vision.

Traditionally overlooked, facilities management is on the cusp of disruption. Companies that track emerging trends and invest in the right organizational capabilities will be well positioned to reduce costs and increase the impact of their facilities management spending.

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