"In-source" Contracted Services

by Matt Adams, P.E.

There must be some real case study now available in our nation's MBA programs that has addressed our educational support operations. To the younger students, this area might seem non-glamorous. For the more seasoned student, the actual challenge can be more profound. In the facilities business, for example, there are plenty of worthy topics for an MBA team to address. Five or more years ago, the topic of "outsourcing" facility management operations might have been entertained. This subject is well known, but not totally exhausted.

For example, is it possible to create a distinct contracted (outsourced) business within the confines of our nonprofit world? If the answer is yes, and it is, then what does this do for the institution and the facilities management department? Now this is a new spin on an old idea that might entertain MBA students for a few months!

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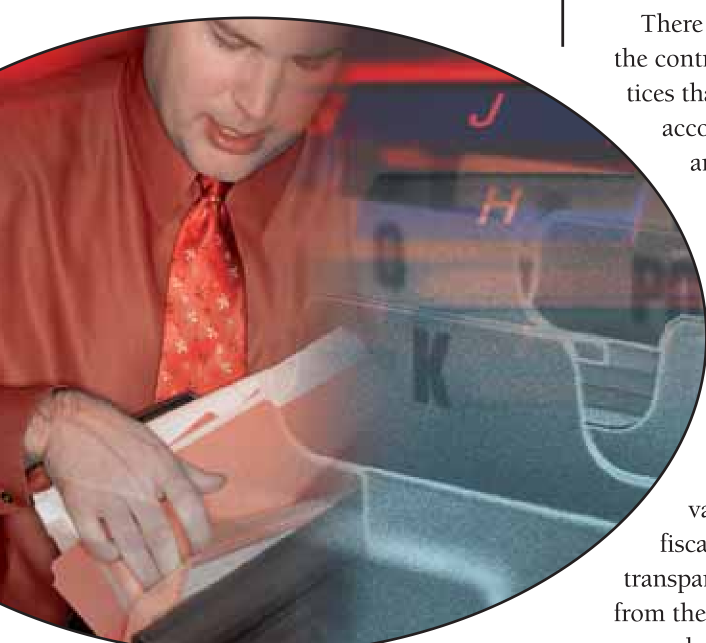

First of all, why would anyone even consider such a premise? Isn't this mixing oil and water, so to speak? The best answer to that question relies on the old "pendulum" metaphor. We have learned that too much outsourcing is not good, and that too little is not a solution either. Somewhere in the middle of the pendulum swing is the mix of services that is just right. To that extent, our industry still has room for much trial and error in that middle swing area.

As I said, we have learned that it is often practical to mix internal services with outsourced services on our departmental "menu." The next question becomes, are there practices that the outsource contractors embrace that we can borrow or mimic and apply to our internal service centers, a.k.a. cherry pick? For now, the answer is yes, until our peers or some super smart MBA students prove otherwise.

There are three primary areas where the contractors have better best practices than we do. These areas are cost accounting, enterprise scalability, and work-loading. With respect to cost accounting, most of us play a complex version of the old shell game. There is a financial interdependency that evolves over time that makes it difficult to financially measure (account for) and therefore manage the various service centers with fiscal accountability and transparency. We should borrow from the external contractors and properly account for and allocate all overhead so each service center is clearly represented by its financial statements. In other words, is it "really" breaking-even or is it a loser? Most of us really don't know the answer to this for each of our FM constituent departments. In other words, we are not transparent.

The first move in organizational change with respect to cost accounting is to recast the financial statements and make the effort to accurately quantify and allocate 100 percent of the costs in the department. Some of our services are overhead and some are chargeable. This exercise not only creates the accounting systems that can be reused for this exercise year after year, but offers dramatic diagnostic data for the department and its service centers. One of the service centers that delivers what are now or potentially chargeable services is an ideal candidate to establish as the first "stand-alone" in-source contractor within the overall nonprofit department and institution.

For example, Wildcat Pest Control Services Inc. (random name, I promise) should be setup as a fully functional "contractor" built from within our department. At the end of each reporting period, the financial statements should clearly indicate the financial viability of the current set-up.

Some would say that we don't have the option of being "scalable" in the educational/institutional FM world. For anyone who has ever endured one or more budget cuts, you know this is not really true. In our new world of increased accountability and transparency, this is one of the best practices that we *must* borrow from our peers in the outsourced contract world. To do it, we must adopt new business rules (policies and procedures) that more aggressively manage both the supply as well as demand side of our service centers.

Let's take the more obvious first practice: supply side management. Like a contractor, we should know well what our peak season is as well as the slow time. Never again should we staff for peak season. Contractors don't do it, nor should we. In short, there is some average load between peak and trough where we can fully charge the cost of our in-house staff. To meet the peak load, we have to utilize more options like casual labor, overtime, contract labor, etc. It is doable; the contractors do it every summer!

The other side of the equation is demand management. Supply management alone won't be successful. Only a few of our peers are willing to do this, but this practice will only grow in acceptance. In essence, the FM department and its service centers can say "no" on occasion. In some cases, the "no" may take the form of prohibitive premium charge rates or lower response times or some other disincentive, but it must be a response that is at our disposal. Contractors pick and choose the jobs they take and don't take. Our in-house contractor should adopt a version of this technique. We are not funded to do everything, so we shouldn't try!

Finally, a good contractor masters the art of work loading his or her crews. Our approach is largely reactive in the institutional world. For example, if our service centers find out what they are doing each week only when they see the output on the printer Monday morning, we are not actively managing the work load of our staff. Much of this practice requires gradual improvement of the customer—service center relationship. In fact, the basic "mason-jar" loading approach used by most contractors is a reasonable start for our in-house contractors. Using this practice we populate our year (jar) with larger or high volume projects (rocks) first and then fill in the opening with smaller work items. If done well, there is little room for last-minute work that is unplanned. This reality must be communicated to customers, just as a contractor would say: "I am sorry we don't have the ability to do your work until next month."

What about margin on projects? This is a new area for in-house contractors. Is it reasonable to charge a "fair" rate for services rendered even if our department has a competitive advantage and can do it for less? I believe it is. Ultimately, there is no profit for us. As such, an internal margin on services that we can delivery very competitively only creates more resources for internal reinvestment into the service center—or ultimately reduction in overhead cost recovery rates. This practice, if successful, is better than outside contractors in that the margin is kept in the institution and reinvested.

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This idea offers an opportunity for one service center to adopt and try some new best practices, even if they are from the "competition." If they work, the department and the institution win. There is no harm in trying these practices, only lessons learned. We are called upon to improve our operations and some of the tools used on the outside are worth trying within our institutional service centers. Perhaps we can have the best of both worlds.