OUTSOURC

Is It the Right Move for Your Institution?

By Mark Crawford

With the nonstop pressure to reduce costs, an increasing number of educational institutions are outsourcing facilities management (FM) to private-sector firms such as Jones Lang LaSalle (JLL), Sodexo, Aramark, ABM, and Compass/SSC. FM services can be outsourced individually or in packages, to include student bookstores, custodial services, plant management, student housing, planning, and procurement. Although saving money is the typical reason for outsourcing, colleges and universities also outsource for aging workforce/retirement concerns or because of the lack of the programs, processes, and technology/data they need to improve operations.

The greatest worry about outsourcing for most FM leaders is losing control and doing serious damage to mission, customer service, and their institutional brand. When institutions choose to outsource, they must be relentless about monitoring the performance of the vendor and meeting the benchmarks established in the agreement. Can an outside company truly embrace a university's culture and mission as if they were its own? This should be the driving question for any institution that is considering outsourcing.

OUTSOURCING ADVANTAGES

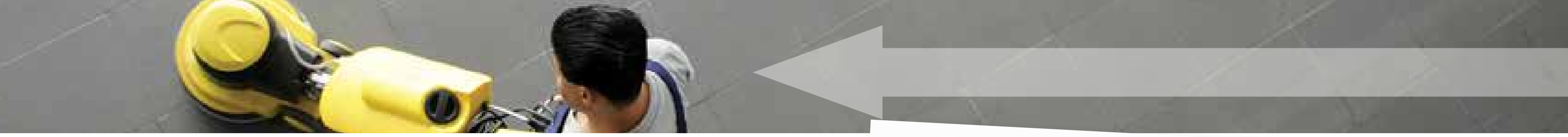
Outsourcing transfers day-to-day FM responsibilities to a service provider that has the expertise to perform these tasks more efficiently, thereby streamlining FM operations and saving the institution time and money. Top outsourcing advantages include:

- Vendors can provide diverse resources, including formalized programs, processes, and procedures, which are beyond the reach of many educational institutions.
- Vendors have the ability to consolidate purchasing for their customers to deliver better prices on supplies and equipment.
- In regions where a service provider has multiple customers, it can share highly specialized subject matter experts (for example, building automation) among customers, at a discount.
- Vendors can provide qualified employees in regions that do not have enough skilled workers; they also have more latitude to hire, fire, train, and deploy employees to maximize team performance.

OUTSOURCING DISADVANTAGES

Outsourcing just to save money can make an institution

ING FM



lose sight of its mission and the value of a dedicated workforce that intimately knows the campus. "Sometimes the lowest price turns out to be the highest cost in the long run, when you consider service, customer satisfaction, administrative time, and employee morale," says Randy Ledbetter, founder and CEO of R. Ledbetter & Associates, an FM consulting firm. Other potential disadvantages are:

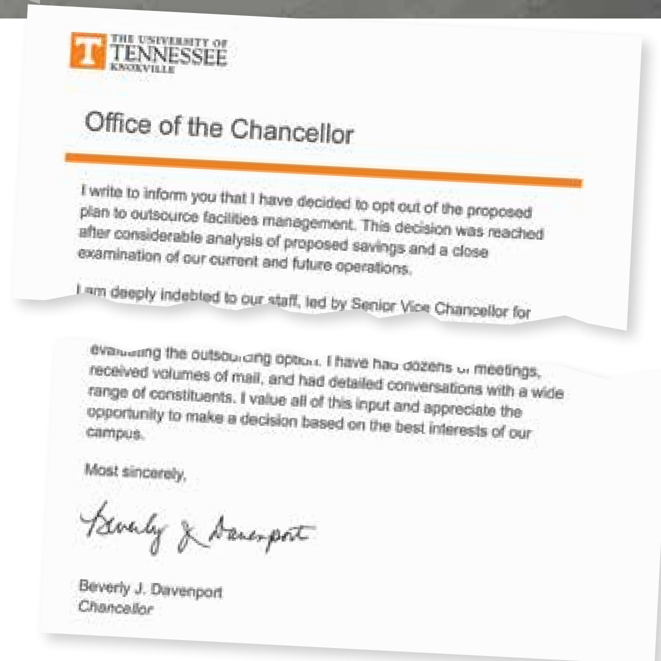
- Outsourcing contracts may outsource too many services under one contract, instead of determining the best tool/approach for different FM needs, which can be quite specific and require different contracts or vendors. "When a contract falls short, it is often because there is no clear understanding of what is really needed," states Dave Irvin, associate vice chancellor for facilities services at the University of Tennessee Knoxville (UT Knoxville).
- Loss of control is a top concern: "If the chancellor or vice chancellor gets a directive or has a goal, it is much easier to get an in-house team marching in the same line, instead of working with an outside contractor," says Irvin. This risk can be offset with a clear contract built around key performance indicators (KPIs).

Randy Ledbetter

- Outsourcing can create a false sense of security. Even if a solid contract is in place, it still needs to be managed. "A big mistake is thinking you don't have to think of facilities anymore, once the outsourcing contract is signed," warns Irvin. "This is not true. You must aggressively manage the contract, just as you would a contract with a contractor who is building a campus structure."
- Potential disruption and morale issues can result if an outsourcing initiative is not properly planned and communicated. Therefore it is extremely important to select a provider that is sensitive to this concern and aligns itself with the mission and culture of the institution. "Sometime the 'town and gown' relationship of FM staff and customers is sacrificed when contractors rotate staff into and out of client contracts on a relatively frequent basis," says Matt Adams, president of FM Squared, a consulting firm that works with educational institutions on outsourcing options. "Granted, there is a business case for the contractor, but it is not ideal for the customer."

UNIVERSITY OF TENNESSEE OPTS OUT

In June 2017 the state of Tennessee awarded JLL a five-year contract (with up to five one-year extensions) to manage the facility needs for all the state's various agencies and institutions—including higher education. However, several University of Tennessee campuses decided to opt out of this FM plan, saying they could do a better job themselves. For example, University of Tennessee Chattanooga (UTC) reported that JLL's proposal



THE UNIVERSITY OF TENNESSEE KNOXVILLE

Office of the Chancellor

I write to inform you that I have decided to opt out of the proposed plan to outsource facilities management. This decision was reached after considerable analysis of proposed savings and a close examination of our current and future operations.

I am deeply indebted to our staff, led by Senior Vice Chancellor for

evaluating the outsourcing option. I have had dozens of meetings, received volumes of mail, and had detailed conversations with a wide range of constituents. I value all of this input and appreciate the opportunity to make a decision based on the best interests of our campus.

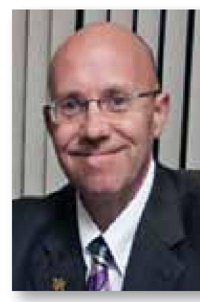
Most sincerely,

Beverly J. Davenport

Beverly J. Davenport
Chancellor

for annual costs for custodial, groundskeeping, and maintenance services was almost $265,000 more than UTC's annual costs for doing the same work.

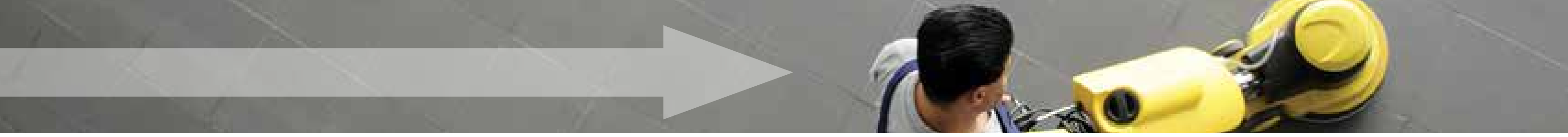
"With a very broad contract, the state of Tennessee hired one company to do prisons, hospitals, highways, state parks, and all of higher education," says Irvin. "Unfortunately, the team they chose has virtually no experience with higher education, so the challenges of student life, research, and athletic programs would be all new to them. We would be the beta test, and they would be learning on our dime."



Dave Irvin

UT Knoxville was in a good position to opt out because of quality initiatives it had launched six years ago. "We were doing a fairly good job of taking care of the buildings and the facilities, but were not doing as good a job of supporting mission," continues Irvin. "We completely reorganized and refocused and made a lot of hard choices. Our employees now have the training, tools, and authority they need to respond effectively to customer needs. This is an ongoing program of continual improvement. Administration saw how we were aggressively supporting mission and decided that an outside firm could not do a better job. The key is asking how FM can best serve the campus; answering that question accurately makes it much easier to decide how and where to apply outsourcing."

Once the decision is made to outsource, notes Irvin, experienced personnel tend to leave. Most vendors want to retain these experienced workers, but most of them prefer not to work with a private contractor. At UT Knoxville, for example, almost all the FM staff told Irvin they would not make the transition and would retire instead. "This is a big downside to trying to outsource everything," says Irvin. "For example, we have some very



specific research equipment. If our people left, there is nobody out there who could understand those very specific research requirements. The fear that we would not have a team with the experience and knowledge base to take care of our complex systems was a big factor for opting out."

MITIGATING OUTSOURCING RISK

FM leaders must carry out in-depth discussions with potential vendors to detail objectives and see how strongly they can support mission. Many FM outsourcing vendors have little or no college or university experience. It is imperative to look beyond cost and determine what kind of value can be placed on the vendor's team, its experience, and how it will blend with the campus and institutional mission.


Matt Adams

According to Adams, one of the biggest concerns for an educational institution is the economic state of the campus and the structure of the contract. "If a particular department is in distress and underfunded," says Adams, "it is unlikely that a contractor will have much success curing the problem under the same constraints. In fact, it could become worse. Contractors are often very good at refining and enhancing operations that are doing well, but are not nearly as effective at resurrecting those on their deathbed."

The normal initial contract term in the FM outsourcing industry is five years with optional renewal periods. This allows the provider to recover its amortized start-up and depreciation costs. Most firms will agree to a mutual, no-cause 30-60 day cancellation clause with appropriate buyout language. Contracts should have metrics established for KPIs (both short- and long-term) and be scalable in order to add/delete services, square footage, acreage, etc. Benchmarks must be well described, including how they will be measured and assessed. These can include a property's cost savings during its entire life cycle; energy savings; staff and student satisfaction with FM services; flexibility and scalability of services; efficiency of services; response time for service requests; and ease of management of daily activities. KPIs should be reviewed at least annually to be sure goals are being met and that the program is still aligned with the institution's situation and culture.

When Adams represents a college during the solicitation process, a key item he reviews is the impact the potential contract will have on the contractor's financial statements. "If the contract size equals 30 percent or more of the company's existing total revenue, that is a red flag for me," he says. "I would view this as a risk to the college and either encourage them to find a partner, change the scope, or eliminate the contractor from the competition."

MOVING FORWARD

In a recent report on real estate and facilities management (REFM) outsourcing, KPMG noted that larger firms in mature markets prefer to bundle their services under the fewest number of service providers and operate under an integrated model to further reduce costs, drive consistency, and improve governance, controls, service level agreements, KPIs, and performance reporting.

"Tactical REFM services—for example, workplace and facilities services, lease administration, and facilities management—remain the activities most commonly outsourced," states the report. "A growing number of service providers are advancing their capabilities, enabling them to move up the value chain in terms of services offered into areas such as REFM strategy, planning and research, and development support services. These service providers are focusing on integrating existing business operations to provide more high-value and strategic services, such as portfolio strategy planning."

Higher education is increasingly a target market for these outsourcing firms because of its issues with declining enrollments, tuition increases, potential taxes on endowments, budget constraints/cuts, aging workforce and infrastructure, deferred maintenance and life-cycle issues, rising healthcare costs, and overall public scrutiny. Outsourcing firms can provide the resources that most schools cannot afford for maximizing operational efficiencies, making them an attractive alternative.

That said, outsourcing is not always the right answer. "There are many high-achieving facilities management organizations in higher education that have the talent in-house to achieve performance excellence," indicates Ledbetter. "They may need a little help in certain areas, but they are smart enough to identify that and deal with it. These tend to be larger schools with the bandwidth required to identify and address opportunities for improvement. Small to medium-size schools simply do not have the resources in many cases to take things to the next level, or to work through the change management process."

For Irvin, the best way to deal with the possibility of outsourcing is to be constantly deploying best practices and finding new ways to innovate and reduce costs, maximize customer service, and support the university mission. "If we can do this," says Irvin, "then the outsourcing question can be decided by us in a single room, rather than having it forced on us—which is always the better position."

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Mark Crawford is a freelance writer based in Madison, WI. He can be reached at *mark.crawford@charter.net.*