

Outsource Contracting Skills Required

By Matt Adams, P.E.

Although outsource contracting skills may not be in the job descriptions for your department's management slots, it should be. Contracting is one more tool at the disposal of facility managers, and it is here to stay. The only unknown is how you apply it to your campus, but proactively is preferred. Not since the massive contracting of facility operations at Penn in the 1990s has contracting been given such attention. With large outsourcing contracts of various forms recently in the news for Texas A&M, Residence Life of the Georgia Board of Regents, and the State of Tennessee, many wonder what is on the horizon for higher education facilities contracting. With few exceptions, the facts associated with the contracting of facility services largely remain the same. However, the days when facility managers can make every attempt to avoid all forms of contracting are long gone.

THE ARTFUL AND RESPECTFUL APPROACH TO SOURCING

Facility managers are continually called upon to be better business people, accountants, negotiators, communicators, and life coaches (yes, millennials have different needs). The technical requirements that allowed you to move up the organization's ladder quickly fade when you become a leader. With respect to "sourcing" (sometimes called "right sourcing" or traditionally called "outsourcing"), leaders of the next generation serve their institutions well when they are skilled sourcing managers.

Either extreme—100 percent outsourcing or zero percent outsourcing—has proven to be troublesome. So the hybrid is ideal for most, and the artful leaders who know what to "make" and what to "buy" in order to best serve the institution. But this is only half of the skillset. These new leaders must also learn how to effectively craft contracts with vendors. Simply offloading to the purchasing department won't suffice.



The new approach to working with contracted service providers is one of mutual respect. When properly pre-qualified, these firms are every much as professionally qualified as APPA professionals and when we treat them that way the business relationship has its best chance to thrive. This is not unlike the conversations we have at APPA events regarding culture. If we desire a transparent culture of communication and respect, this should be extended to our service providers and business partners. After all, it is likely that they will be working with our campus customers as much as we do.

CONTRACTS A MUST

There are two basic types of contracts used in the industry and each has pros and cons. The first is the traditional "**fixed fee**" contract. For years, this has been considered the best contract format for less complicated service arrangements where cost savings is the priority. It absolutely requires careful pre-qualification of vendors. A less qualified vendor that under bids will create an unworkable situation for both.

On the contrary, a qualified firm with a high degree of communication and transparency can often save money while maintaining service levels. Rather than forcing the vendor to perform in a very precise

manner, the more modern approach is to specify the outcomes of the service. Measure what you receive and not how it is provided.

The other approach is the “**cost-plus**” contract. In this format the labor, material, and other costs are passed through the vendor at cost and reimbursed by the institution. The same accounting that would normally take place for an in-house operation is used for the costs and then the contractor proposes a fee or profit above that amount. Some feel that this approach discourages cost savings by design. However, it can be modified to allow for performance goals with fees placed at risk. In addition, the contract can offer shared savings arrangements for both parties that are achieved by the vendor. In both cases the success still depends on the posture of both parties.

Much has been reported recently about outsourcing contracts that provide an upfront cash payment to the customer. These contracts are complex and often rely on a variety of aggressive accounting practices by the vendors. Ultimately these contracts require that the vendor not only secure a cash flow that meets their profitability requirements but also one that provides enough cash flow (annuity) to convert to a present value amount.

In other words, this suggests that there is enough excess budget for both profit and an off-balance sheet loan to the institution paid off over the life of the contract. Some of this cash flow is realized by the distinctly different account practices of a private contractor versus a nonprofit educational institution, but not all. For most APPA members this is not a practical approach, despite the temptation of the upfront payment. Without sophisticated contract oversight, this contract is at its best on day one, when the big check passes hands. From there it can only get worse because it has become a lose-lose relationship.

YOU WON'T BE THE ONLY CUSTOMER

The contracting marketplace is very large and vendors have many potential customers. Understanding this, the APPA market should reflect on those attributes that it has that are of value to potential vendors. New leaders realize that the best vendors can pick and choose where they do business. Some benefits that our industry might offer or promote in solicitations are predictability/stability. Unlike some industries that have large economic swings we are relatively predictable. This is of value to vendors.

Furthermore, vendors communicate and have their own professional networks. We want our institution to have a reputation (culture) for fairness and equity.


There are always unforeseen situations and the expectation that our institution will work in partnership with vendors to solve problems is attractive.

From another standpoint is the accounts payable policy and procedures. Nothing reinforces the negative stereotype of our industry more than excessive aging of payables and reams of paperwork. Simple and fast payment will attract the finest vendors. The cost of not aging payables is not recognized by our institutions, in any case.

SUCCESS VIA COMMUNICATION

Many of the basic elements of success for contracted services are the same as for in-house departments. It's all about communication. Many of our peers have well run departments but have a negative customer satisfaction perception due to a flawed or inadequate culture and system of communication. David Edmondson, vice president of Southeast GCA Services, offered what he and his firm believe are the two most important elements of the contracting relationship.

- Provide as much valid information as possible in solicitations, including a candid evaluation of current service levels. Avoid trying to protect either feelings or organizational status. This includes what is being told (i.e., initial explanations, updates) to existing staff, if possible.
- Bring full participation to the contracting process continuously and do not leave it to subordinates. We find that over time, as the relationship evolves, clients tend to lose the desire to meet regularly for business reviews (we call them Joint Review Committee meetings—JRCs). In our minds, it is imperative that the client makes the commitment—from the very start—that they will remain engaged and participate in regularly scheduled reviews, throughout the life of a contract. If this occurs, communication remains open and issues will not be avoided and/or forgotten.

The contracting of services within our industry is here to stay. Striking effective win-win business arrangements is a highly desirable skill needed by facility managers in education for the foreseeable future. Become an expert and build a reputation for your institution as one that the best vendors will value. 

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