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How to Create an **International Marketplace**



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DIANE MACKNIGHT, MACKNIGHT ASSOCIATES
MICHAEL REDDING, AGILE OAK LLC
JEAN-PHILIPPE RODRIGUES, AGILE OAK LLC

Earlier in 2009 the authors of this article wrote a whitepaper about facility management which was then translated into Arabic. Of course, having no capability to read or write Arabic, there was no way to be certain of accuracy. To verify quality, portions were translated from Arabic back into English by a different translator. Chagrined, the authors discovered that the expression facility management had been substituted with “insurance, administrative, organizational and consulting services.” Imagine the frustration at such a fundamental error. Investigation into the underlying cause of this revealed the need to rethink some fundamental perceptions of the facility management industry.

The problem with the translation was not accuracy. The expression “facility management” simply isn’t used in Arabic outside of a few people from within the industry. This issue is

not unique to the Arabic language. In French for example, facility management translates to English as “general services.” On occasion, the English expression “facility management” is used, but only to describe situations where facility management services have been outsourced to an external service provider. In Portuguese, the expression “Gerenciamento Integrado de Facilidades” has only seen usage over the last few years and often requires explanation. The use of language is indication that other cultures do not necessarily share similar views of the facility management industry. In some cases there isn’t even a defined term for ‘facility management’ bringing into question the extent to which facility management can truly be considered a global industry.

The maturity of the global facility management market

There have been a few global facility management outsourcing deals over the past few years. Procter & Gamble (Jones Lang LaSalle), Nestle (CB Richard Ellis) and Cadbury (Johnson Controls Inc.) have been broadly reported. While global deals grab attention and headlines, is it sufficient to indicate global maturity?

There are greater numbers of large facility management outsourcing relationships which have followed a country-specific or pan-regional rather than global approach (HP, Merck, Intel, Kraft and Novartis). Global

deals have tended to focus on only a specific element of the portfolio (Procter & Gamble for instance separated manufacturing facility management from office and technical centers). Additionally, it is common for facility owners to separate “hard” and “soft” facility management services. The truly global deal which incorporates the full spectrum of facility management services across the entire real estate portfolio is a rarity.

Facility management represents a US\$300 billion industry globally. Of this, US\$68 billion is outsourced. While the scale of global facility management outsourcing has grown, is still small compared to business process outsourcing (US\$240 billion) or information technology outsourcing (US\$280 billion)—notwithstanding the larger overall size of these markets.

Previous reports have suggested that the emergent state of global facility management is due to factors such as the complexities of dealing with the mix of regulations affecting areas including tax, intellectual property protection and employee rights, all of which vary significantly across jurisdictions. This explanation is insufficient. These, as well as the accompanying cultural and language issues, have been overcome in a number of other sectors including information technology, manufacturing and financial services. The rarity of true global facility management relationships would seem to be a reflection of market maturity rather than exogenous factors such as regulatory or cultural complexity. Consider the following:

- The largest facility management service providers generally do not report facility management as their primary source of revenue;
- Service provider capabilities and service offerings are not uniform in all regions;
- There is significant dependence by facility management service providers third party vendors;
- The definition of facility management is highly variable in each market;
- Consistent facility management deal structures are not broadly adopted;
- Limited university degree programs exist in facility management;
- There are a limited number of facility management professionals with global experience; and

- Of the US\$100 billion U.S. facility management market, less than 10 percent is outsourced.

It is interesting that the largest facility management service providers generally do not report facility management as their primary business as reflected in their financial statements. For example, in 2008 Sodexo reported a substantial US\$4.4 billion in global facility management revenues, but this amount was dwarfed by their US\$15.2 billion reported revenues from food services. Similar trends exist for most of the very large facility management service providers (ARAMARK, CB Richard Ellis, COFELY, EMCOR Group Inc., HOCHTIEF, Jones Lang LaSalle, Johnson Controls Inc., etc.). The implication is that the largest facility management service providers have their core business in a related industry—typically food services, cleaning, real estate, utilities, or engineering and construction. While there are some obvious synergies to this arrangement, it gives rise to somewhat inconsistent definitions of facility management. Depending on the organization, facility management might be defined to include or exclude housekeeping, property management, small projects, security, etc. This is in sharp contrast to information technology (IT) outsourcing firms, where revenues are dominated by IT and related consulting services.

This state of maturation is also reflected in the industry’s strong dependence on third-party vendors to deliver services. While it has been argued that the most efficient service delivery model (for large sites) should typically have 80-85 percent of services delivered by site-dedicated technicians (less expense on a per hour basis than remotely dispatched labor), a number of outsourced facility management accounts receive less than 60 percent of services from site-dedicated labor. This situation is evolving as firms that previously relied on third party contractors become increasing adept at self-performing a broader array of services in a wider marketplace.

The availability of education also indicates the maturity of an industry. A search on University.com revealed only three degree programs in “Facilities Planning and Management.” This is in sharp contrast to the IT degree, where hundreds of undergraduate and graduate programs are available.

Facility management outsourcing or business process outsourcing?

One of the interesting questions is whether or not the facility management industry will become subsumed into the broader outsourcing industry category. There are a number of firms that define their business as outsourcing non-core company functions (Accenture, for example, has a chief executive of outsourcing). When examining the larger global outsourcing firms it becomes apparent that most of the firms that describe themselves as providing complete business process outsourcing (BPO) support typically have minimal, if any, capacity to provide facility management services. This occurs for a number of reasons:

- Other outsourced services (human resources (HR) benefits administration, finance, IT) can be largely supported from consolidated, remote locations whereas facility management services must, for the most part, be delivered locally;
- Most client organizations that have global facilities portfolios do not have global facility management organizations;
- There is a lack of consistency in both the definition of facility management and the contracting models used to define and execute facility management deals; and
- Some client organizations have concerns about the dependency risk of putting all outsourced services in the hands of a single service provider.

As the industry continues to mature, these entry barriers will erode and outsourcing firms will begin to more aggressively build capabilities and incorporate facility management into their service offerings. Future facility management outsourcing opportunities will see competition from companies that offer full spectrum business outsourcing capabilities.

The future of facility management

Facility management represents an attractive industry to service providers. This attractiveness is reflected in the significant level of investment (both acquisition and development) the industry currently enjoys. Many organizations providing facility management services have discovered that this revenue stream has remained relatively stable during the most recent economic downturn, with modest reductions in account specific revenues offset by the overall industry growth.

With facility management outsourcing still lagging behind other business services, both increased growth in facility management outsourcing as well as increased consolidation of facility management service providers is likely to continue. This consolidation will inevitably lead to a more uniform market presence, as larger firms go from having multi-national footprints to being truly global organizations with strong capabilities in all major world markets.

In the next five years, U.S.-based firms will continue to branch out to the rest of the world, and conversely, European firms (such as ISS Facility Services and Dalkia) will have an increased presence in the United States. In parallel, the facility management service delivery model will become more consistently defined and dependence on third-party subcontractors for local/pan-regional service delivery will diminish. Toward the end of this five year period, there will be some divestiture of facility management business units with a corresponding formation of large dedicated facility management outsourcing companies. Some of these firms will target niche markets, while others may be acquired by BPO firms.

In five to 10 years, the market will have the potential to evolve in some new directions. Instead of being defined by service provider capabilities, facility management will see more evolution along customer industry verticals. Some facility management service providers will make significant investments to meet the demands and provide sophisticated, expanded service offerings to specific verticals. Even now, some facility management service providers are developing capabilities specific to the pharmaceutical and biotechnology sectors with their service offerings in development—ultimately encompassing a wide array of non-traditional facility management services such as chemical stockroom management, comprehensive laboratory instrument management, validation services and compliance support. We expect these types of offers to continue to expand with advisory support designed to ensure maximum leverage by the core business. In aviation, facility management could expand to include full ground support services. Similar specializations are expected to occur in the semi-conductor industry, health care, and other demanding, service-intensive environments.

Less specialized facility management environments will be increasingly serviced by BPO firms that will begin to acquire or develop general facility management capabilities. This will be facilitated by a more consistent facility management contracting and service delivery model. The driver for this consistency will be increasingly integrated technology platforms, reporting requirements and the relentless demand for overall business efficiency.

The outlook for facility management professionals

As the global facility management market matures, the outlook for industry professionals has never been brighter. Facility managers will find themselves more often working for service provider profit centers rather than facility owner cost centers. As this occurs, multiple career options will unfold.

Senior facility managers may find themselves with profit and loss accountability for large client accounts or even entire business units. Those working for BPO firms may either become facility management subject matter experts or account managers who deal with relationships including a broad array of non-facility management services (IT, HR, finance, etc.). For facility managers working in dedicated industry verticals, the challenge will be developing and sustaining the specialized skills their industry vertical requires.



The education available to support these challenges will also evolve. The number of degree programs will increase and general facility management degrees will become more business focused. Programs aligned along either technology or specific industries will become more prominent. This will also give rise to graduate degrees in facility management. It is reasonable to expect that these programs might include a graduate degree in international facility management as well as a master's degree in a facility management concentration, similar to what's currently available for IT professionals.

For facility managers looking to prepare themselves for this global facility management outsourcing market, this means developing a capability for cross-cultural leadership, a continued emphasis on communication skills including fluency in multiple languages, advanced education and the daily use of higher level business analysis and critical thinking skills. **FMJ**

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Diane MacKnight, CFM, FRICS, IFMA Fellow, is the founder and president of MacKnight Associates. MacKnight Associates has provided corporate, institutional and higher education clients with high-level strategic consulting in facility management strategy, strategic sourcing, operations and maintenance, organizational design, change management and performance improvement. For more information visit www.macknightassociates.com. Diane can be contacted at dmacknight@macknightassociates.com.



Michael Redding is the founder and managing director of Agile OAK LLC. He has been advising real estate and facility management organizations for more than 10 years. Michael has facilitated facility management outsourcing, provided training and helped optimize facility management client/service provider relationships in the United States, Canada and Europe. For more information visit www.agileoak.com. Michael can be contacted at mredding@agileoak.com.



Jean-Philippe Rodrigues is a director with Agile OAK LLC. Prior to his consulting career, Jean-Philippe headed the facility management and real estate department of Citizens Bank where he led the delivery of services for more than 200 branches. He is also a seasoned sourcing professional who has worked in key global sourcing and supply chain positions in the automotive and electronics industries. For more information visit www.agileoak.com. Jean-Philippe can be contacted at jprodrigues@agileoak.com.