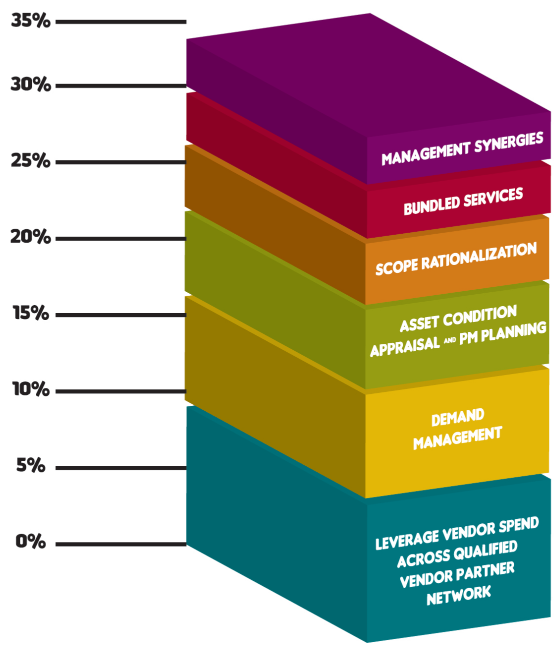
Straight to the SOURCE

Strategic sourcing in landscape maintenance services.

BY SEAN JONES, CPM

The indirect spend category of Facilities Management (FM) provides a variety of opportunities for strategic sourcing and procurement to find savings.



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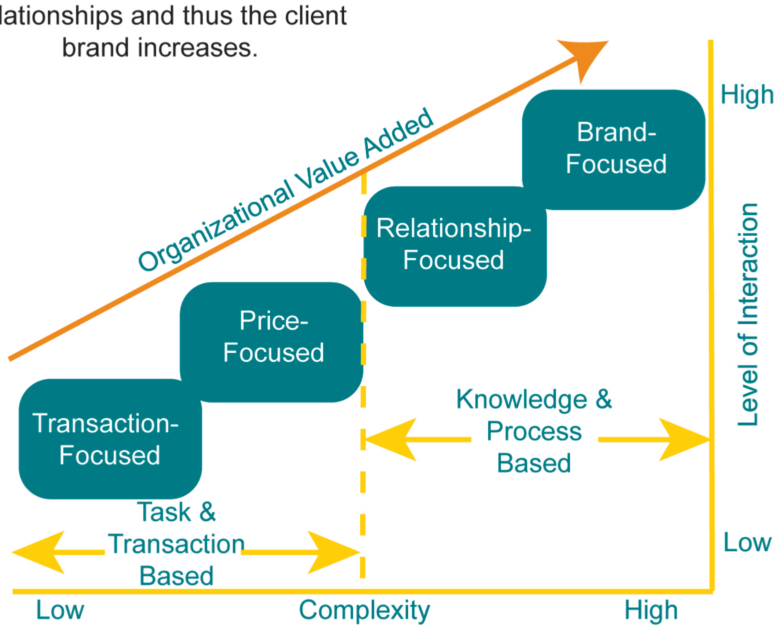
The average organization spends more than 30% of non-payroll costs on real estate and facilities management (FM). As such, in the current economic environment, organizations are increasingly targeting their facilities spend for cost reductions. However, despite being one of the largest components of operating spend, few organizations apply the same level of planning and resources to building and grounds maintenance services as they do other core-specific spend categories.

In neglecting this area of spend, organizations are missing out on opportunities to improve sourcing practices and significantly reduce costs, often by as much as 25%. This article offers insights into the application of strategic sourcing best practices for landscape maintenance services, such as standardization, outsourcing and change management. The variety of services that fall into the indirect spend category of facilities management provides the perfect opportunity for strategic sourcing and procurement to generate significant savings and improve quality.

As supply management moves from transactional to a strategic function, the focus on supplier relationships and thus the client brand increases.



INDUSTRY OVERVIEW

The demand for building operations and maintenance services has grown dramatically over the past 50 years. Third-party property, real estate and facility management firms have grown their share of the overall market as organizations look to focus on core, revenue-generating activities and outsource everything else. The typical approach to outsourcing, in landscape maintenance as well as other facilities maintenance services, has occurred at the local level, where individual offices/sites within an organization initiate and negotiate the transaction with local contractors with little or no coordination at the enterprise level.

When embarking on a facilities-related initiative, sourcing managers face a number of barriers that stand in the way of long term success. The primary obstacles include:

• Lack of spend visibility: Service buyers often lack the technology and information systems necessary to access relevant spend data. And, because FM spend is fragmented across many locations and suppliers, gaining a holistic view of spend is a major challenge.

• Lack of resources focused on FM services: Most organizations lack the internal resources in terms of services supply chain management and facility management subject matter expertise. This deficit makes it very difficult for buyers to be proactive with their suppliers.

• Understanding the cost drivers and structures: There is a limited understanding of the cost drivers and underlying cost structures of maintenance service suppliers. This often leads to misaligned incentives.

• Knowing when and how to outsource: How do you know when you should outsource? Should you outsource all services or just a few? Are you looking for a landscaping outsourcing solution or would your company benefit from a more comprehensive integrated facilities management solution?

COST STRUCTURES AND COST DRIVERS

The cost structures of firms in the building and grounds maintenance industry vary widely across regions and trades, between large and small suppliers, and among suppliers of the same size. Across the board, landscape maintenance contractors' cost structures are dominated by wages and billable hours of their employees. Larger contractors with more efficient equipment, productivity-enabling systems, and a significant and densely populated customer base can typically provide services at lower costs due to higher employee productivity, less down time, and other back office economies of scale. The cost structures of small contractors tend to show the most variation. While many small contractors are extremely efficient, others attempt to pass along their high overhead and low productivity through higher fees.

Some facility services, like landscape maintenance, are more or less a commodity and margins tend to be very low. Larger volumes and longer term commitments help contractors spread overhead costs — especially smaller firms that tend to have larger overhead as a percentage of costs.

Not surprisingly, the main cost driver within the building and grounds maintenance industry is the unpredictable nature of the demand side of the equation. Suppliers have very little visibility into future demand, resulting in an environment where they are constantly reacting. This dynamic makes it extremely difficult for contractors to staff and respond to each request while balancing quality and profitability, which tends to drive costs higher. Predictable volume through preventative maintenance programs and longer term contracts helps to spread overhead costs and improve productivity.

HISTORICAL PROCUREMENT APPROACH

Despite the mission critical nature of some services (snow removal, HVAC maintenance, etc.), organizations rarely place the same level of strategic emphasis on sourcing building and grounds maintenance services as they do on other, higher-profile categories. Whether purchasing facility services for a single event to remove snow from a parking lot or a season's worth of landscape services, the typical approach is for individual building managers within an organization to initiate and manage the transaction with little or no coordination at the enterprise level.

In addition to decentralized purchasing, a number of other deficient sourcing practices can be identified. Work standards and specifications very often are not reflective of the client's immediate need or overall corporate/brand strategy. When faced with issues surrounding the standard of work, building managers often default to the status quo and in many cases leave it to the contractor's discretion to just "get the job done." For example, an organization may be purchasing janitorial services based on a scope of 7 days per week at 5 hours per day, when a scope of 4 days per week at 4 hours per day would deliver the same results at a much lower cost.

Another purchasing oversight is the tendency to focus exclusively on the unit price and not the total service cost. A building manager may shop for electrical repair services based on the lowest hourly rate, totally neglecting the skill level of the technician, number of hours billed for the job, trip charges, overtime charges, material markups and warranties — all of which have a major impact on the total cost of the repair. The wrong fee structure can drive the wrong behaviors, resulting in shoddy workmanship, higher costs, and animosity between the building manager and the contractor.

For large organizations, especially those with a national footprint of properties, the majority of spend on facilities maintenance services is likely going to local contractors. Questions that enterprise procurement should be asking include:

• Do we have sufficient visibility and control over this significant spend item?
• Do we have the visibility, control and peace of mind that our local providers are properly insured and in compliance with local, state and federal regulations?
•Do we have the internal resources and expertise to aggregate, standardize and leverage our organizational FM activities to drive the best value?
• Is there a better way?

The answer to these questions depends on whether an organization possesses the subject matter expertise and resources to drive the changes necessary to deliver the results desired. Very often, there are opportunities to improve in all of these areas.

WHAT ARE THE STRATEGIC SOURCING OPPORTUNITIES?

Here are five best practices that leading companies have implemented as part of strategic sourcing initiatives related to facility maintenance services. Although all may not be applicable to any situation, they provide useful guidelines for investigating opportunities that can produce immediate, material savings in a category with significant spend.

Scope Rationalization / Standardization

Perform an organization-wide work scope or standard benchmark study. This can reveal best (as well as worst) practices and significant variances across the enterprise, even locations that are adjacent to one another. What is the function of the facility? Is the current scope of work in alignment with your organization's corporate, brand and real estate strategy?

Implement Business Rules

When purchasing facility maintenance tasks, a common pitfall many organizations fall into is not choosing the correct benchmarks for proposal comparison and evaluation purposes. Too often, decisions are made solely on the unit pricing. Buyers should also give serious consideration to key business rules and negotiate based on those rules. For example, when scoping and procuring repair and maintenance services, buyers should negotiate trip charges, response times, return trip charges, materials mark up, overtime charges, standard labor hours, etc. All of these can have a significant impact on the total cost of services.

Negotiate at the Enterprise Level

Facility maintenance services are typically purchased in a reactive and decentralized manner at the local site level, resulting in a fragmented spend across many contractors. Given the cost drivers for these types of services, vendors are eager to negotiate larger volumes and will often provide significant discounts in order to secure more business with one customer. The advantage to suppliers is savings on overhead and marketing costs, higher employee productivity due to less drive time, and a more predictable demand schedule. Therefore, purchasing firms should look for opportunities to standardize and consolidate vendor relationships across all maintenance trades.

Manage the Entire Supply Chain

Similar to merchandise fulfillment practices, organizations with a large number of FM vendors servicing a large network of geographically dispersed facilities can benefit from taking a supply chain management approach — for example, a national retail chain that has multiple locations, all of which need a variety of maintenance services in order to keep the doors open and make the customer experience as pleasant as possible. For the reasons stated above, the process doesn't stop with a sourcing initiative. To really drive the desired outcomes, organizations must plan and manage all activities involved in the sourcing, procurement, work order, and service logistics management. It also requires coordination and collaboration with channel partners including operations, corporate real estate, parts and materials suppliers, and maintenance contractors to ensure that services are provided at the right time, at the right price, and at standard.

Partner with a Facilities Management Specialist

Given the lack of strategic focus on building and grounds maintenance, organizations don't typically invest significant resources into working jointly with their supplier. Working collaboratively with a facilities management firm, especially one that specializes in serving clients with geographically dispersed properties, can yield significant benefits. Buyers can leverage the buying power, subject matter expertise, and change management experience of FM specialists. Also, maintenance contractors are often eager to partner with FM firms that can provide access to larger and more consistent volumes of work for their company — which, in turn, leads to lower pricing for the FM specialist.

CONCLUSION

Given the proliferation of national and global companies and the commensurate growth in facility assets, facilities maintenance services represent a significant area of spend. It now presents a greater opportunity for potential savings than does the purchase of materials and components. Partnering with FM specialists, enterprise-level purchasing groups can access relevant subject matter expertise and supply chain resources necessary to implement and manage the available strategies designed to drive the desired outcomes. **RFB**

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