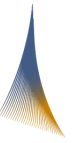


Blue Skyre IBE
Innovating the Built Environment

THE FUTURE OF FACILITIES MANAGEMENT OUTSOURCING: HYBRID MODEL





FACILITIES MANAGEMENT (FM) has endured many

changes during the past few decades but, none arguably as influential as a pandemic, digital transformation, and the need for environmental, social, and governance (ESG) programs. These influences are testing the applicability of current outsourcing solutions and contract structures. They are also forcing the industry to rethink service delivery models and introducing new structures that will support emerging priorities, provide flexibility and evolve to become dynamic, and address future business needs.

SERVICE MODELS

Companies consider outsourcing corporate real estate (CRE) functions to accomplish certain objectives such as cost optimization, focusing internal resources on the core business, employee experience services, risk reduction, access to non-core software/technology and reporting, better compliance, best practices, increased efficiencies, leverage CRE expertise, a shared services platform, and to tap service provider investment and innovation. These objectives influence the structure of the outsourcing services delivery strategy and in turn the types of contracting solutions available at the site, regional, and global portfolio levels.

There are several operating models that corporations typically use to engage facilities-related services. One model most corporations utilize is to contract directly with multiple vendors by purchasing facilities services one type of service-at-a-time, which is known as "bundled services" or "out-tasking". In fewer cases, they contract with a services Aggregator (i.e., one vendor who uses a technology platform to engage multiple suppliers and manage them to deliver certain bundled facilities services at the sites) or with an Integrator (i.e., one facility contract to provide multiple services through one vendor). Nevertheless, Aggregators and Integrators subcontract one or many of the facilities services to other firms to perform. There does not exist today a firm that self-performs all building and occupant services (+100 different services) at the asset, regional or global level. Though, some of the large global services companies can self-perform a large portion of the contracted services, particularly at large sites. Dispersed portfolios with multiple smaller or independently managed sites often experience the largest number of subcontracted services regardless of the type of facilities company under contract.

Figure 1 outlines examples of how companies purchase various facilities services and FM today.

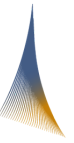
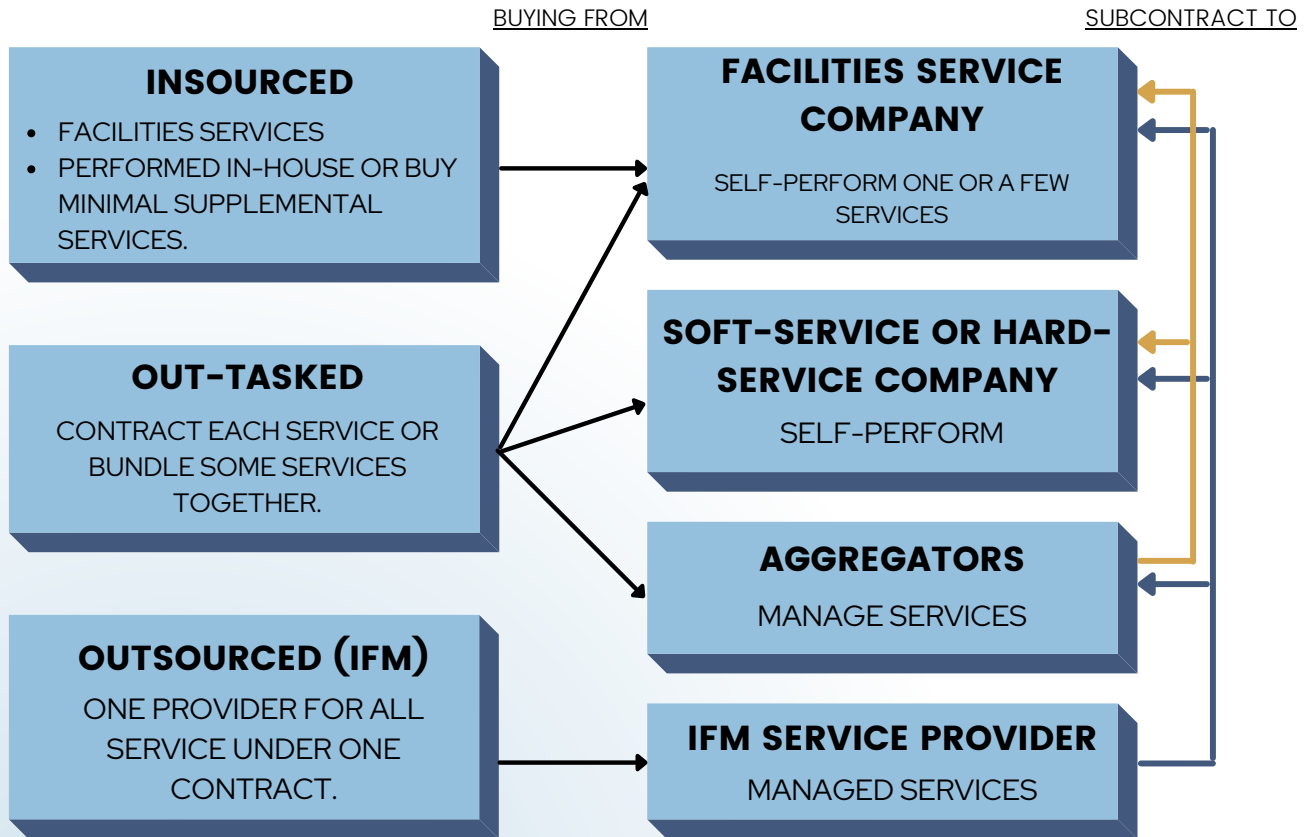


FIGURE 1:

HOW CORPORATIONS BUY FACILITIES SERVICES & FM TODAY

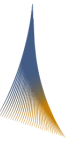


NEW PRIORITIES

Many outsourcing contracts are currently structured for the reimbursement of resources (e.g., time and material) with a multi-year term, many have a price guarantee with risk and reward associated with final outcomes on performance KPIs and some are fixed price. The challenge with these types of contracting methods is that they present an opportunity for potential misalignment on where services are performed, how work is scheduled or planned, and they typically do not allow for the agility nor the flexibility the outsourcing company needs over time to adjust its FM strategy and work-planning to meet new priorities that are impacting it is business and operations.

The challenges of these new priorities, such as resiliency, talent retention, impact, brand, and cost, are driving new trends in Corporate Real Estate (CRE) and facilities outsourcing. The following are just a few of these important trends:

- **Automation** of FM workflow processes
- **Agility:** shortening contract terms to one year or less, one service provided to a symbiotic ecosystem, flexibility to scale, and contract
- **Digitization:** Digital Twin and remote management, real-time performance management



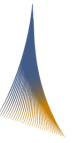
- **Environmental, Social, Governance (ESG):** sustainability, safety, well-being, experience-oriented services, creating opportunity for small and diverse businesses and talent in local communities, data management, compliance and risk mitigation, accountability for overall performance metrics
- **Productivity:** hospitality & experience services, collaborative space, hub and spoke location options, hybrid workplace models
- **Optimization:** cost reduction, benchmarking, operating efficiencies, and operational excellence

Figure 2, below, outlines the four models for delivering corporate real estate and facilities services. These structures are either in-source, outsource, out-tasked (which is the majority of the industry), or the newly emerging hybrid model.

FIGURE 2: TYPES OF CORPORATE REAL ESTATE (CRE)/FACILITIES MANAGEMENT STRUCTURES

	IN-SOURCE	OUTSOURCE	OUT-TASK	HYBRID
DOMINANT INDUSTRIES	Manufacturing	Technology, Banking, Health Sciences	All	All
STAFF	Employees	Employees/Provider Depending on Scope	In-house/Service Provider	In-house/Network & Performance Managers
SUPPORTING TRENDS	<ul style="list-style-type: none"> • Automation • Digitization 	<ul style="list-style-type: none"> • Productivity • Optimization 	<ul style="list-style-type: none"> • Agility • Productivity • Optimization 	<ul style="list-style-type: none"> • Automation • Agility • Digitization • ESG • Productivity • Optimization
ACCOUNT MANAGEMENT	In-house	Service Provider	In-house	Lean In-house with Technology
TERM	N/A	+5	1-2	1-2
TECHNOLOGY	CMMS	Some Proprietary	CMMS	BSI Synergy Park/CMMS
SERVICES	In-house/Some Providers	Service Provider	Aggregators/Service Providers	Aggregators/Service Providers
VALUE PROP.	Control	No Core Competency/Cost/Best Practices/Differentiation	Control/Cost Lack of in-house certifications/credentials	Control/Cost/Best Practices/Transparency

Presently, FM outsourcing typically consists of the service provider taking over related functions within properties or taking over properties and the responsibility for the facilities services within them. The future structure of outsourcing is changing from this traditional model to a requirement for creative solutions and outcomes-based performance by the service provider. To meet this challenge, the service provider profile is changing from today's specialized, single provider for all solutions or large bundled services firms to include new providers that provide a "network" of vendors and suppliers. This network consists of a marketplace of suppliers, managed through commonly shared processes using automated workflow tools to provide service consistency and create opportunity for the best

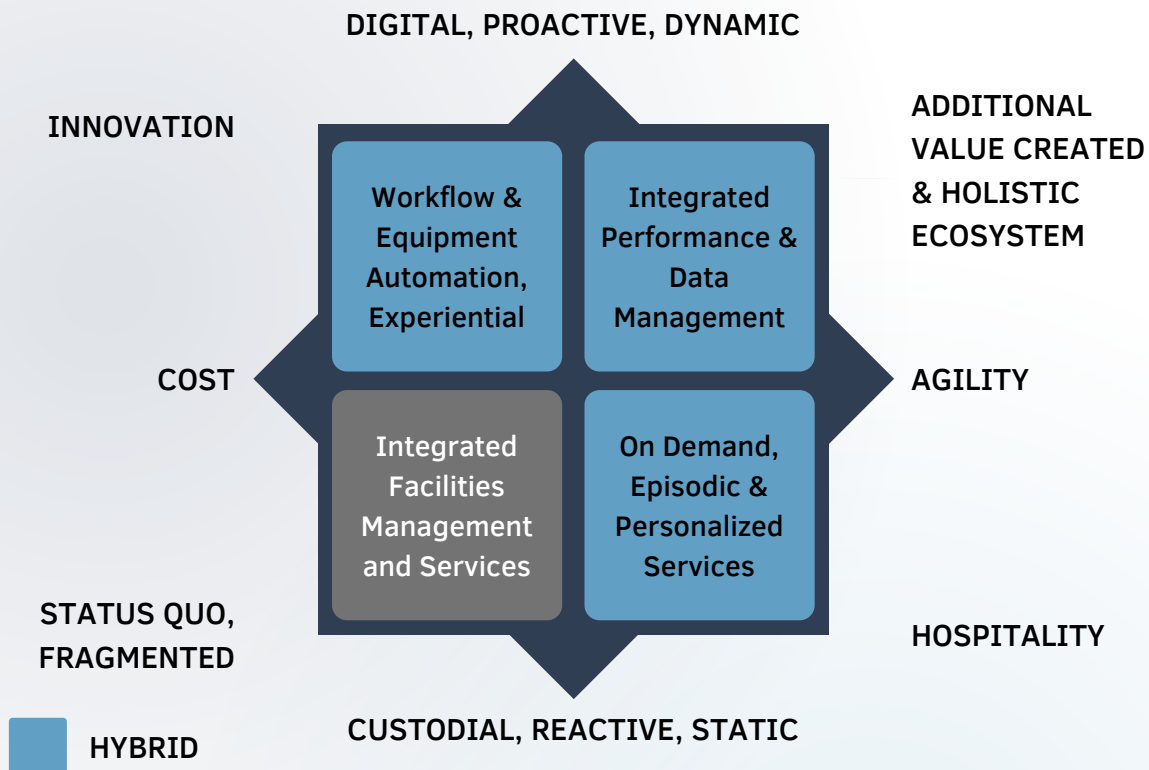


performing vendors by a center of excellence or central account team. Various suppliers are further operationalizing this model by creating a network of providers who are supported by facilitators who are crowdsourcing resources.

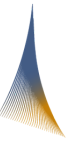
VARIATIONS OF THE EMERGING MODEL

Consequently, the “Hybrid” service model (HSM) is emerging and is best described by the combination of two or more distinct elements. The hybrid service model combines service and/or products with technology to achieve the attributes required to meet the emerging trends listed above. For example, if the iPhone is the product the service is iTunes and includes the ecosystem of applications that includes third parties. Another example is the Original Equipment Manufacturers (OEM’s) which sell the building equipment tied to a service contract and engage a broader ecosystem of local third-party vendors to deliver repairs, servicing, etc. Similarly, FM combines technology to manage the workflow (work orders) to the performance of the service being provided by an ecosystem of diverse providers. These combinations of distinct elements are illustrated in Figure 3 below.

FIGURE 3: EMERGING HYBRID SERVICE MODEL VARIATIONS



The trend of moving from legacy in-house facilities resources for janitorial, repairs and maintenance, furniture moves, window cleaning, landscaping, painting, electrical, carpentry, etc., to bundled services subcontracting and single-service facilities providers is undergoing a sea change based on the shifting business priorities and technology available today.



The shift away from the current single-service providers to a curated ecosystem of best-in-class resources and new reporting requirements necessitates the support of a robust performance management system. Successfully managing a disparate network of providers with a performance management tool that is fit-for-purpose enables the effectiveness of the next generation symbiotic ecosystem. This new ecosystem is outcomes-based and is focused on optimizing cost and efficiency, as well as measuring the impact of business goals attained and reporting service quality.

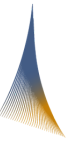
FM includes many services from maintaining the physical environment (e.g., HVAC, electrical, plumbing, landscaping, etc.) providing a safe, healthy, and creating an experiential productive working environment that supports the occupants (e.g., food/catering, mail, conference room booking, cleaning, etc.). This requires many different types of vendors delivering services locally. The size of the location can help determine whether dedicated resources or on-demand resources are required. For example, a large building with a complex central system and a high work order volume typically requires a dedicated, full-time building engineer. By contrast, a smaller property with a simpler system that functions well can typically be satisfactorily serviced by an engineer who is available on-demand, per-incident, or to provide the scheduled planned maintenance.

OUTSOURCING PRACTICES

Some companies have chosen to outsource FM to one firm globally to provide all or a combination of the following services: real estate transactions, lease administration, facilities management, project management, and workplace portfolio planning.

Under some scenarios, all these disciplines have been bundled into one master services contract and many of these have been structured under a “one-size-fits-all” type of agreement. Such an approach creates performance management and governance challenges because of the multiple services and unrelated workflows that must be managed under that single umbrella. For example, lease administration may follow one business process globally, however, facilities management requires a variety of workflow processes and specific technologies depending on the service, the building, and the geographic location. This type of services structure aligns itself better to a symbiotic ecosystem of providers that specialize in a certain service, in a certain global geography, where the best providers for the respective local portfolio can perform as service partners to the client, using common technology and standards.

The concept of integrated service can be found in other industries for example a Health Maintenance Organization (HMO). Individuals may choose an HMO over a Preferred Provider Organization (PPO) based on a lower monthly cost, however, a PPO can provide



more flexibility of provider choices. If individuals prefer to have their health care coordinated by one party, an HMO might be best and if they like the freedom of choice and selection of specialists, a PPO would be preferred. The HMO is like an Integrated Facilities Management (IFM) structure where the company's CRE team engages one party to select and manage multiple service contractors to lower costs. While an alternative structure is akin to the PPO example, where the CRE team selects the best provider for each service. Under the latter option, deploying the proper technology is especially critical for managing and measuring the cost, performance, and compliance of the providers. The uniqueness of each company's business and operations highlights the fact that a firm needs to make the selection that best meets its needs and will enable its real estate portfolio to facilitate accomplishing the enterprise's objectives.

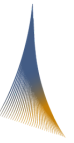
Using a large ecosystem of vendors and suppliers in facilities management is complex and risky without the ability to manage compliance, cost, and performance at scale. This has been a challenge historically for procurement and CRE departments and is often the reason why some have engaged one service provider globally to manage their portfolios. As technology evolves with its mobile applications and automated digital processes, the ease of training and use has improved and risk has been mitigated. As software solutions increasingly integrate disparate data sources, the "one size fits all" contract solutions are giving way to the curated and purpose-driven networked supplier ecosystem, in other words, the hybrid service model.

OUTSOURCING CHALLENGES

According to the International Facilities Management Association's 2006 Outsourcing Report, CRE's facilities managers faced challenges with their service providers on two fronts. One was the service provider's ability to fit into the organization's culture and the second was the ability to continually monitor the provider's service quality. Unfortunately, these challenges persisted until only recently when they began to be mitigated by technologies providing the ability for a flexible solution that can meet the needs of today's businesses. Also, this report found that facilities managers were more satisfied with out-tasking than outsourcing or doing neither and self-performing (IFMA, 2006).

In another outsourcing report issued by CoreNet Global in 2018, it found that performance measurement was in higher demand from the end-users than the service providers viewed necessary. It also found there was little consensus regarding the optimum delivery model (CoreNet, 2018).

"As large companies increasingly rely upon outsourcing providers, the in-house teams will focus more on automation" (CoreNet, Harrison, 2019) to manage service delivery and

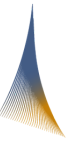


monitor performance. Also, the study found “CRE will require more digital business skills, including expertise in areas such as business intelligence, AI, cognitive reasoning and risk management is growing in importance and impacts the entire breadth of the CRE” by 2025 (CoreNet, Harrison, 2019). These ongoing client requirements for performance management and automation, coupled with the growing demand for increased service options to support an evolving hybrid office model being adopted by companies (a combination of work in the office, work remotely from a hub or home) and a greater emphasis on ESG programs for the corporate real estate portfolio have given rise to the need for the Hybrid Service Model (HSM). As employees work from multiple locations this may require more services to individuals than under today’s models (e.g., concierge services, enhanced employee experience services). This is driving a shift to more on-demand, episodic and personalized services instead of dedicated full-time resources as more detailed consumption information becomes available.

The HSM is being driven out of changing needs. The main drivers are green, automation (digital transformation), and agile. Figure 3 outlines the HSM and demand drivers:

FIGURE 3: THE HYBRID SERVICE MODEL (HSM)





For corporations, there are several delivery models to choose from for facilities services and facility management, whether it is from one provider or a bespoke model. Before selecting a model, a CRE team is best served by first confirming the C-suite's overall priorities for the business (brand, talent, place, collaboration, experience, IT, etc.) and then assessing the CRE teams and its system's capabilities to align with and accomplish the stated objectives and to deliver upon those priorities. Following that process and completing that assessment will inform leadership's selection of the right model which will enable the team's priorities and success when the model is deployed.

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