Insights

Choosing the Best Outsourced Service Delivery Model

Much of our work with Fortune 500 companies is assisting corporate real estate and procurement teams in refining their second or third generation outsourcing models. Their strategies often result in RFP processes to change service providers or improve contract terms with incumbent providers. Recently however, we have helped a growing number of middle market companies taking their first step into the world of outsourcing.

What Services Should be Outsourced?

For those companies, we like to start the planning process by examining their current delivery models for key services at three levels: strategic, management and tactical. Using the table below, we discuss the pros and cons of bundling out-tasked tactical services under a service provider who has a “platform” of skilled people, processes and technology to manage both tactical and management level services. And although most companies prefer to keep strategic services in house, we explain the capabilities of service providers to provide subject matter experts that can provide those services when appropriate.

	Transactions	Projects	Facilities	Support
Strategic	Strategic Planning M&A Support	Workplace Strategies	Business Continuity Plans	Business Strategy Change Mgt
Management	Transaction Mgt Deal Strategy Property Mgt	Project Mgt Occupancy Plans Space Mgt	Work Orders Procurement RCM / LCAM Energy Mgt EHS	Accounting Budgeting Reporting Technology
Tactical Service Delivery	Brokerage BOVs Market Research	CAD Space Tracking MACS	MEP Engineers FM Technicians Reception	Bill Paying Lease Administration

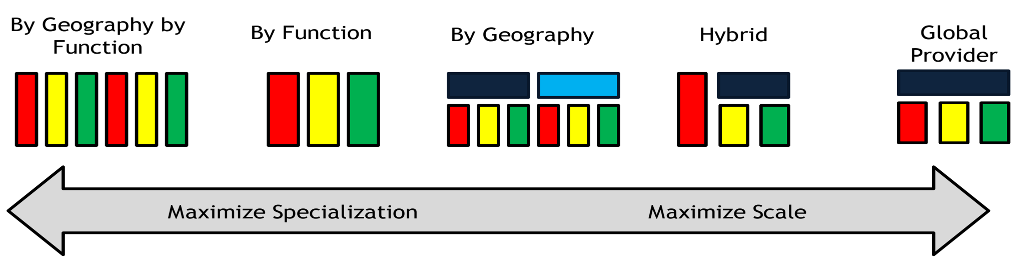
Does Self-Performance Matter?

A second issue in selecting a service delivery model is to evaluate the advantages of self-performance of tactical services by the service provider. The example, some facility management firms can staff building engineering, janitorial and food services while others self-perform only half of these services and manage third parties who deliver the rest. In theory, more self-performance means lower costs through economies of scale and better consistency in service delivery. In practice, these cost and quality advantages are not always realized, particularly when the provider is not as strong in a service or geography as other best of breed providers.

We believe that the jury is still out on self-performance of hard and soft services in facilities management, and that clients need to evaluate proposals specific to their portfolio and service needs. On the transactions and projects side of the business, we generally favor firms that can self-deliver the services through local "boots on the ground". But even here, the geography and product types in the portfolio are important to consider, and most clients who opt for a self-performance model keep some flexibility in their contracts to use other providers where it makes sense.

Specialization versus Economies of Scale

Another trade-off to consider in your outsourcing strategy is specialization versus economies of scale. As shown in the graphic below, delivery model options range from multiple "best of breed" out-tasked vendors to fully integrated services under a single global service provider.



The majority of our clients began their outsourcing journey on the left side of this chart, selecting the best providers for their portfolio either by region or by function. Later, they consolidated some services or regions under few providers in an effort to take advantage of scale. Although large companies have moved all the way to the right by selecting a one provider to manage all services global, a hybrid model is still more common. For example, some clients prefer to spread brokerage work across multiple firms and even individual brokers but to outsource facilities management to one provider who can drive standard processes across the sites.

The Integrator Model Concept

As the outsourcing business matured in 2005-2015, we saw three primary service delivery models adopted: 1) multiple providers assigned by region (North Americas, EMEA, APJ, etc.) 2) multiple providers by service line (facilities, transactions, projects, etc.) and 3) a single provider managing all services everywhere.

With the advancement of technology supporting corporate real estate and the platforms of major service providers, interest is growing in a fourth alternative where multiple providers serving the client report through a single provider acting as the "integrator". To facilitate discussions with clients of the pros and cons of each model, we developed the table below:

Outsourced Delivery Models	Pros	Cons
Single service provider	• Synergies across service lines and scale economies • Consistent processes, technology, reporting • "One throat to choke"	• Provider may be weak in a region or service line • Less chance for innovation from other accounts • "All eggs in one basket"
Multiple providers by region or function with the client acting as the integrator	• Best in breed solutions by region or service line • Competitive tension	• Burden on client staff for oversight & reporting • Providers compete more than collaborate • Client must drive innovation
Multiple providers with one provider as the integrator	• Retains competitive tension • Offloads technology & reporting to a provider	• Integrator may keep pushing for more delivery • Other providers may not collaborate or innovate

Our experience is that for portfolios of less than five million square feet, many clients prefer the single service provider model. The clients have small internal CRE teams that want to leverage the staff of a single provider for tactical delivery, technology and reporting. For them, the advantages of this "one throat to choke" model outweigh the best of breed and competitive tension advantages of using multiple providers.

Clients with larger portfolios typically have different providers around the globe for the major service lines. They are skeptical that any provider can deliver consistent quality in all markets. But internal CRE teams must act as the integrators in a multiple provider model, and many companies do not have the people or investment budget needed to succeed. In second generation bids, these clients are shrinking the number of service providers they use and selecting one or two providers to help improve process standardization, technology and reporting.

Integrator Model in the Future

Several clients with large portfolios have been testing models where one provider acts as the integrator for other providers assigned to the account. Microsoft appointed CBRE several years ago to procure and manage services from other providers through a technology platform developed for Microsoft. JPM Chase is using JLL as an integrator under a more limited model where JLL integrates technology and reporting for some services. And we are working with a small financial services firm that is considering outsourcing its entire back office function including accounting, HR real estate and parts of IT under a BPO (Business Process Outsourcing) integrator.

The integrator model lets the CRE team leverage one provider's technology and support platform without losing the advantages of using multiple providers. Clients need a governance system that ensures collaboration among the providers, drives innovation rather than inefficiencies, and avoids regional management teams "going rogue" to develop their own processes.

We believe that the integrator model will continue to gain traction because both CRE and Procurement teams at major clients can get what they want most. CRE managers get better technology and reporting done on a consistent basis, and procurement managers get the competitive environment they are responsible to ensure. The speed with which the integrator model expands will depend on the evolution of the major service providers' technology platforms and their willingness to settle for less than the whole enchilada of a client's portfolio and services.

Author

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