

OUTSOURCING

INTEGRATED FACILITIES MANAGEMENT

GETTING THE PROCUREMENT PROCESS RIGHT

“Outsourcing generates transformational results—when you do it right.”

—Kate Vitasek, faculty member of the University of Tennessee’s Haslam College of Business Administration and an international authority for her award-winning procurement research and Vested® business model for highly collaborative and strategic relationships.

Many organizations have been slow to adopt the idea of outsourcing secondary services, such as facilities and dining. Yet the advantages of doing so are indisputable. In fact, public and private entities have been reaping the benefits for decades, even before Peter Drucker made [“unbundling the organization”](#) a normal part of business in 1989.

But procuring these services differs greatly from buying standardized goods, such as pens or office furniture, where there are many suppliers and changing contracts would have little or no impact on the organization. The more complex the service sought, the greater the need for a collaborative procurement approach. In these situations a standard Request for Proposal may not be the best solution.

Research by the International Association for Contract and Commercial Management (IACCM) has found most organizations that outsource operate under conventional transaction-based models that are constrained by a formal, legally oriented, risk-averse and liability-based culture.¹ The resulting relationship may not allow the flexibility necessary for each party to achieve intended results.

The best strategic relationships often begin with a Request for Solution (RFS) or Request for Partner (RFP). Here, we discuss the difference and how you can use these vehicles to secure the right outsourced partner for your organization.

1. “Contract Negotiations Continue to Undermine Value,” IACCM’s Ninth Annual Top Ten Terms Report, April 2010.



The Sourcing Continuum

To get the biggest benefit from outsourcing, organizations should bundle services that a single supplier can perform—for example, integrating facilities management, cleaning and dining into an integrated FMO (facilities management outsourcing) solution, explains Kate Vitasek, faculty member of the University of Tennessee’s Haslam College of Business Administration.



INTEGRATING FACILITIES MANAGEMENT SERVICES ALLOWS A SMART SUPPLIER WITH THE RIGHT PROCESSES AND TECHNOLOGY TO DRIVE EFFICIENCIES IN BOTH THEIR OVERHEAD AND PROCESSES. THE BEST SUPPLIERS HAVE INVESTED IN TECHNOLOGY THAT OPTIMIZED THE LABOR POOL AND INVEST IN INNOVATIONS THAT CAN DRIVE IMPACTFUL BENEFITS FOR A COMPANY.”

Vitasek also emphasizes that outsourcing relationships are moving away from transaction-based toward outcome-based. Vitasek and her colleagues have studied successful outsourcing relationships for over a decade and explain that the best relationships operate under what UT researchers have called a Vested business model.

A Vested partnership is a highly collaborative sourcing business model where the organization and the supplier have an economic interest in each other’s success. Vitasek shares, “A Vested outsourcing relationship is structured as a true win-win. A Vested deal focuses on making your entire operation run more efficiently with fewer resources because the pricing model rewards a supplier when they deliver efficiencies, lower costs and improved satisfaction. A win for the buyer is a win for the supplier. That is where we get the term Vested, because the supplier has a Vested interest in achieving big success for their customer.”

According to Vitasek, “The more strategic, the more complex, the more risky, the more opportunity for efficiency, the more you’re going to shift up that sourcing continuum.”

Request for Solution

The Request for Proposal has long been the preferred strategy for sourcing professional services. Yet it has limitations, particularly in an ever-changing business environment. In a standard Request for Proposal, you're bidding out a set of work. You prescribe the work and then get a price for that work. In more complex outsourcing initiatives, you may not know the solution. As organizations seek new models for service delivery, the solution is not always apparent.



THAT'S WHERE A REQUEST FOR SOLUTION (RFS) IS VALUABLE. IN AN RFS, YOU DON'T PRESCRIBE THE WORK. RATHER, YOU GO THROUGH CONCEPT SOLUTIONS, A CONCEPT PROPOSAL AND A SOLUTIONING PHASE WITH THE SUPPLIER. YOU ARE PICKING THE RIGHT SUPPLIER THAT WILL CUSTOMIZE ITS SOLUTION FOR YOUR NEEDS.

For example, if you are looking to outsource cleaning services, an RFP would articulate, "I want somebody to clean this many buildings or this many square feet. How much are you charging for your custodial person?" Such a price-based model offers little added value or incentive to improve performance over time.

In a complex environment, an organization can achieve great value when approaching the work in a more integrated manner. Staff can perform multiple tasks, such as repairs, maintenance and cleaning. For example, wouldn't it make sense to have your custodian, who's cleaning the bathrooms also change a lightbulb to amplify efficiency? Likewise, what if your custodial staff was trained to identify and report energy waste as they clean?

An RFS looks beyond simplistic pricing to the holistic concept of what you're trying to solve and the scope of the project.

Many organizations that outsource focus on getting the lowest possible wage rates, especially when it comes to cleaning and catering staff. But Vitasek warns against this. “Minimum wage means prices can only go so low. Don’t get hung up on the rate card of the laborers.”

“What you should be focusing on is creating a bidding process that enables the supplier to clearly show you **how** they work smarter. A good Request for Solution process differentiates the suppliers who simply show up and clean the floor from those that really are bringing know-how, processes and technology that will take you to a much better place—not just knock off a couple of bucks an hour on labor rates.”

Vitasek’s latest book *Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models for Modern Procurement* (with co-authors Bonnie Keith, Jeanne Kling and Karl Manrodt) shares insight on when to use a Request for Solution. The RFS is excellent when organizations want to have a performance-based agreement. A performance-based agreement is generally used when you want to have a formal, longer-term supplier agreement that combines a relational contracting model with an output-based economic model.

Vitasek likes to think of it this way: “When you use an RFS, you are asking the supplier to create a solution. It’s important you structure your contract to hold the supplier accountable to that solution. However, it’s important you don’t hold the supplier accountable for things out of their control. Well-structured performance-based contracts seek to drive supplier accountability for output-based service-level agreements and/or cost reduction targets and, as such, typically creates incentives (or penalties) for hitting (or missing) performance targets.”

Request for Partner

In the most collaborative situation, a Request for Partner (RFP) complements a Request for Solution, but is used when cultural fit is essential for the success of your outsourcing initiative. The Request for Partner process uses a Request for Solution, but adds an element stressing the importance of finding a supplier that will be a good “fit” for the organization.



CULTURAL FIT BECOMES ESSENTIAL WHEN AN OUTSOURCING DEAL IS HIGHLY STRATEGIC IN NATURE OR WHEN YOU MAKE THE SHIFT FROM BUYING OUTPUTS (A PERFORMANCE-BASED DEAL) TO BUYING BUSINESS OUTCOMES (A VESTED DEAL). THE HALLMARK OF A VESTED AGREEMENT IS THAT THE BUYER AND SUPPLIER CREATE A HIGHLY COLLABORATIVE WIN-WIN RELATIONSHIP WHERE THE SUPPLIER IS MOTIVATED TO MAKE INVESTMENTS TO ACHIEVE MUTUALLY AGREED DESIRED OUTCOMES.

Vitasek explains the subtle but strategic importance of shifting to an outcome-based model. “When you think about business outcomes—it often involves a lot of uncontrollables and unknowns. For example, you know you want to create a sustainability program. This will require the supplier to make substantial investments and significant education and process changes on how your employees operate. A supplier can make investments in sustainability programs, but if you don’t do your part you won’t receive the benefits. It’s risky for a supplier to sign up for true business outcomes, so what you see is finger pointing and blame rather than cooperation.”



“Who cares if the supplier has a green scorecard if you still didn’t meet your business goals?”

Cultural compatibility and fit become essential when you move to a Vested model because the parties need to work collaboratively to achieve the business outcomes. You want to get a supplier that's going to have this strategic fit with your organization because it's longer term in nature. For example, let's say your outsourcing strategy involves shifting some of your labor pool to the supplier. You'll want to make sure your employees feel good about their new employer.

"Bottom line," Vitasek says, "use a Request for Partner when you're selecting a partner you need to collaborate with to achieve strategic business goals—not just making incremental achievement against SLAs or costs savings targets. Picking the right partner your employees love to work with is key to driving a collaborative environment."



Getting Started

Entering such a strategic process can be overwhelming.

Here are a few tips to get started.

1. DETERMINE THE “CATEGORIES” YOU ARE SOURCING:

What products or services does your organization need to procure?

2. DETERMINE WHICH SOURCING BUSINESS MODEL IS APPROPRIATE:

Not every situation requires a Vested, or outcome-based, deal.

However, more complex, large deals should be Vested in nature.

3. DECIDE WHICH PROCUREMENT PROCESS IS BEST FOR YOUR SITUATION:

Would a Request for Proposal be enough, or should you consider a

Request for Solution? Is the partnership going to be long-term? If so, a

Request for Partner may be best.

4. GATHER THE RIGHT CORE TEAM:

Beyond your official procurement team, who should be involved in the

decision-making process? Likely, you will want to involve the people

currently running that part of the organization's services. For example, if

you are considering outsourcing facility services, include those who run

your mechanical systems. You will also want to include your legal team,

since a contract will be involved, and your finance team since you will be

comparing value-based concepts.



Choosing the Right Partner

Choosing the wrong partner will hinder your success, especially if the services impact and touch your employees and customers.

TO ENSURE YOU FIND THE RIGHT PARTNER FOR YOUR ORGANIZATION'S NEEDS, NOW AND IN THE FUTURE, CONSIDER:

Do they have the capabilities you seek? Narrow down your scope by eliminating any suppliers that cannot provide exactly what you need today.

Do they have experience working with organizations similar to yours as well as expertise in the specific details your organization values most? For example, utilizing local partners or vendors on your site might be critical to your organization's values and mission. Ensure their expertise demonstrates they've done what matters most to you.

How will they treat your current employees and hire new ones? If retaining your existing staff is important to you, look for a supplier that will work to keep all your current employees on payroll and has a proven process for transitioning and onboarding your people. Do they have the processes in place to hire the best candidates with the right background checks to ensure the safety of your community?

Many companies talk about customer insights and customer experiences as their expertise. What type of systems, processes and tools do they have to truly understand YOUR customers' needs? Do they have the expertise in-house to measure your organization's intricacies or will they rely on national third-party data? Do they have just-in-time automated systems for immediate feedback?

What processes do they have in place to keep your organization moving forward and aligned with customer expectations? If you are outsourcing dining or facilities services, perhaps your long-term partner and supplier builds an internship program with your organization or employee management program to create a career track not available before.

AS YOU MOVE TO MORE ADVANCED SOURCING BUSINESS MODELS, YOU WANT TO LOOK AT THE OVERALL SOLUTION.

How will you and the service provider work together to ensure governance of this project?

You're not just buying cleaning services at \$X per hour. Look at how suppliers will manage the business and how they will include you in the process.

What is our cultural compatibility and fit? Having the right team on the ground is one of the most important factors in any outsourcing decision. How will they make sure their team on the ground is an extension of your organization and its values? It is crucial to ensure your brand is protected and represented to its greatest potential. When Procter & Gamble outsourced facilities management, cultural fit was a critical part of deciding which supplier to pick. According to [Vested: How P&G, McDonald's and Microsoft are Redefining Winning in Business Relationships](#), when P&G executive leaders looked around the room during working meetings with suppliers, they looked for the supplier that had the best cultural fit and made decisions in similar ways.



Which Procurement Vehicle is Right for You?

Each type of request you issue will garner different results.

HERE'S WHAT TO EXPECT:

REQUEST FOR PROPOSAL:

task-based, price-oriented result

REQUEST FOR SOLUTION:

guarantees for cost containment or service levels

REQUEST FOR PARTNER:

innovation, efficiencies and effectiveness that challenge the status quo and challenge the supplier to work collaboratively with you to achieve true business outcomes



Keeping Outsourced Relationships Healthy

Long-term relationships are most successful in a culture where participants work together to achieve ultimate efficiencies.

Here are Vitasek's five rules for Vested partnerships:

1. FOCUS ON OUTCOMES, NOT TRANSACTIONS:

Vested deals buy desired outcomes, not individual transactions. The service provider is paid based on its ability to achieve the mutually agreed desired outcomes.

2. FOCUS ON THE WHAT, NOT THE HOW:

Give the supplier flexibility to challenge existing "how" work practices, especially when changes will achieve mutually beneficial outcomes.

3. AGREE ON CLEARLY DEFINED AND MEASURABLE OUTCOMES:

Ensure everyone involved understands how outcomes will be measured and improved.

4. OPTIMIZE PRICING MODEL INCENTIVES:

Work with your supplier to make strategic investments in processes that can generate more value than transaction-based models by offering an incentive plan.

5. GOVERNANCE STRUCTURE SHOULD PROVIDE INSIGHT, NOT MERELY OVERSIGHT:

Don't manage the supplier, but rather manage the business with the supplier to create transparency and constant improvement.

Final Word on Outsourcing

Remember, outsourcing is not a dirty word. Your organization stands to gain efficiencies, cost savings, improved service levels and even a trusted long-term partner if you approach the process the right way.

To learn more about outsourcing facility or dining services, contact us today.

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