CHANGING TIMES IN FACILITIES MANAGEMENT

Sheffield Hallam research 2016 with support from GRITIT, Servest Group and i-FM

Sheffield Hallam University

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Contents

Welcome to the fourth research project from Sheffield Hallam University looking at trends in the facilities management (FM) sector. Both our organisations are considered leaders in their respective sectors — GRITIT as a provider of strategic exterior maintenance services and Servest Group as a facilities management service provider — so it is only natural for us to work with the leading facilities management research body in the UK to produce this valuable research for, and on behalf of, the industry.

Our company logos might be on the front cover, but we see this very much as a document for the industry to digest, and to learn from, adapting their way of working as a result. Our aim is to provide insight into outsourcing trends in FM, issues and expectations between buyers and providers of FM services, the state of play in innovation in our sector and a look to future game changers in the industry — all while comparing today's experience with that three years ago when the research was last undertaken.

The detailed results presented over the next 20 pages reflect an industry in a growing state of maturity. There is less antagonism and closer working relationships between buyers and suppliers, a trend towards more strategic outsourcing, rather than a single service approach, and a growing focus on providing ever-more innovative solutions.

But there is still much to be done, by both clients and suppliers, to help to ensure that FM is a strategic partner to a business and not just seen as a cost.

Thank you to everyone who took part in the research and shared their valuable experiences and views, without you this document would not be possible. Thank you also to the research team at Sheffield Hallam University who analysed the results in such detail, and to the editorial and design team at Magenta who created this report. Please feel free to share these results as widely as you can, and let's start a debate about the future of the facilities management sector #FutureOfFacMan.

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Rob Legge.

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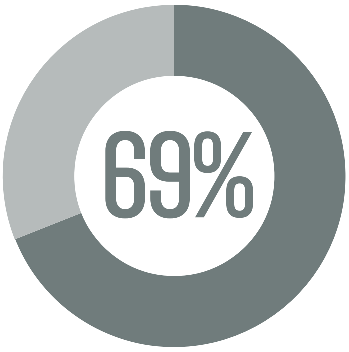
"Outsourcing of FM will continue to increase with demand for TFM, bundled and integrated FM growing while single services will fall."

Executive summary



OF RESPONDENTS OUTSOURCE MORE THAN OF 50% OF THEIR FM SERVICES

This year's research reveals that the overall trend towards outsourcing continues unabated, with those who outsource doing so to a much greater degree — 69% outsource more than 50% of their FM services. This trend is more prevalent in the private than public and third sectors. However, many clients are still taking a short-term approach to their relationships with their FM partners. Around half said they would re-tender and re-scope their current facilities contracts when they reached their end.

While outsourcing objectives are broadly similar now as they were three years ago — financial savings, better technical expertise, buying efficiencies, and access to best practice — service providers are getting better at meeting their clients' objectives. This could be because there appears to be a better match between outsourcing objectives and outsourcing practice. Personal chemistry between parties (4.0), innovation (4.0), cost (4.4) and confidence in the team's ability (4.5) are important when evaluating tenders and bids which reconciles with the emphasis on financial savings; while end-users were neutral concerning the importance of reference sites (3.6), local supply chain (3.6), skills development (3.7) and CSR/sustainability (3.7) which reconciles with the lack of emphasis on sustainability. But, innovation continues to be seen as important when evaluating tender and bids yet it ranks near the bottom in terms of being an objective of outsourcing — a trend observed in the past.

Communication, working together as a team and better alignment of strategies and plans are the top areas both end-users, service providers and FM consultants feel buyers need to improve to better their outsourcing efforts — similar to three years ago. But there are differences between the groups. Those bidding for services (45%) feel there is less room for improvement regarding initial request for proposals and briefings than responding to the tenders (58%). Conversely, more end-users feel there is room for improvement regarding KPIs and reporting (60% vs 48%) and service level agreements (64% vs 46%) than service providers and FM consultants combined.

The sector is innovating to a greater degree than in 2013. Only 40% of end-users of services report innovation activity ongoing while nearly twice as many service providers report ongoing innovation.

Much of the innovation activity in the FM industry is aimed at producing organisational, environmental or technological product innovations. But innovation continues to seldom be made a requirement in service delivery using externally accountable methods like contract terms (15%) or SLAs (22%). This is more so now than it was three years ago. It is also most frequently measured using KPIs (53%) or client engagement surveys (52%). Uncertain demand for innovative goods or services and lack of funds within their organisation are the main barriers to innovation activity. This resonates with the innovation appearing towards the bottom of outsourcing objectives.

Over the next five years, demand for TFM, bundled and integrated forms of service delivery is perceived to increase — while single services will decrease. The ability to focus on core business, value for money, reducing cost, and service quality are considered to be the most important factors when outsourcing over the next five years, while skills development of the FM team and commitment to sustainability are considered the least important — similar to 2013.

A number of areas look to change the FM market landscape in the coming years, including:

- **Use of technology in terms of improving the delivery services and transparency** (and subsequent cutting of costs) - specifically, IoT, robotics, software programmes and Apps ('uberisation') were mentioned as a means to achieve this
- **Legislation** — impact of Living Wage introduction and Brexit
- **Using data** — 'big data' and analytics, specifically being able to link data to decision making to improve productivity and service quality
- **Culture change** — changing attitudes towards working/workplace resulting in changes in how people work and communicate — be it through technology or changes to the built environment as people become less reliant on attending offices or more willing to share space
- **Cost** — increased competition, reduced budgets of buyers and high expectation of service users; changes to legislation affecting costs such as the Living Wage
- **Innovation and sustainability** — were frequently mentioned but not in any detail concerning why these are game changers.

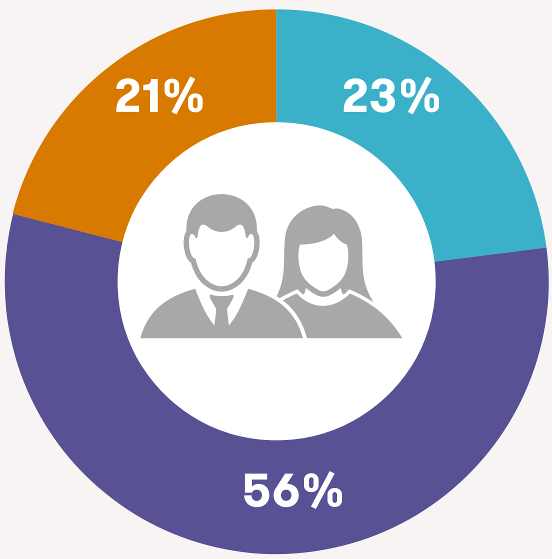
Methodology and respondents

METHODOLOGY

GRITIT and Servest Group commissioned the research from Sheffield Hallam University. It was undertaken during a three-week period in April 2016. An online survey was distributed through i-FM, by Sheffield Hallam's Centre for Facilities Management Development at Sheffield Business School, and through GRITIT and Servest's client networks. In total, 368 individuals responded to the survey, substantially more than in 2013. As an incentive to participate, the survey offered £2 per respondent to the breast cancer charity Walk the Walk (https://walkthewalk.org) Accordingly in June 2016, Magenta Associates, on behalf of GRITIT and Servest Group, sent the charity a cheque for £736.

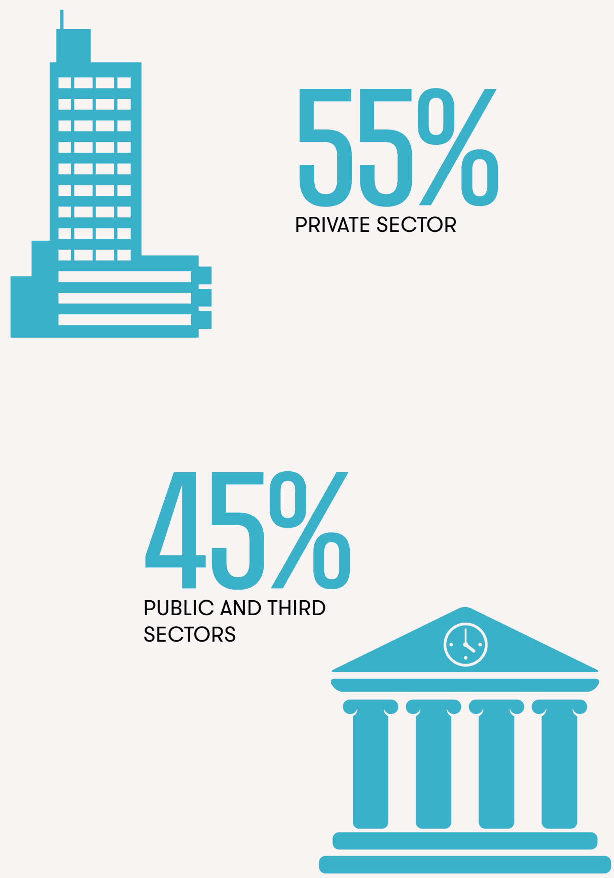
The research was led by Tim Davidson-Hague in Sheffield Business School (SBS). Fieldwork analysis was undertaken by Beth Patmore, research fellow in SBS, who produced the initial findings. These were then examined by Cathy Hayward, managing director of Magenta Associates, who produced the following report.

RESPONDENTS

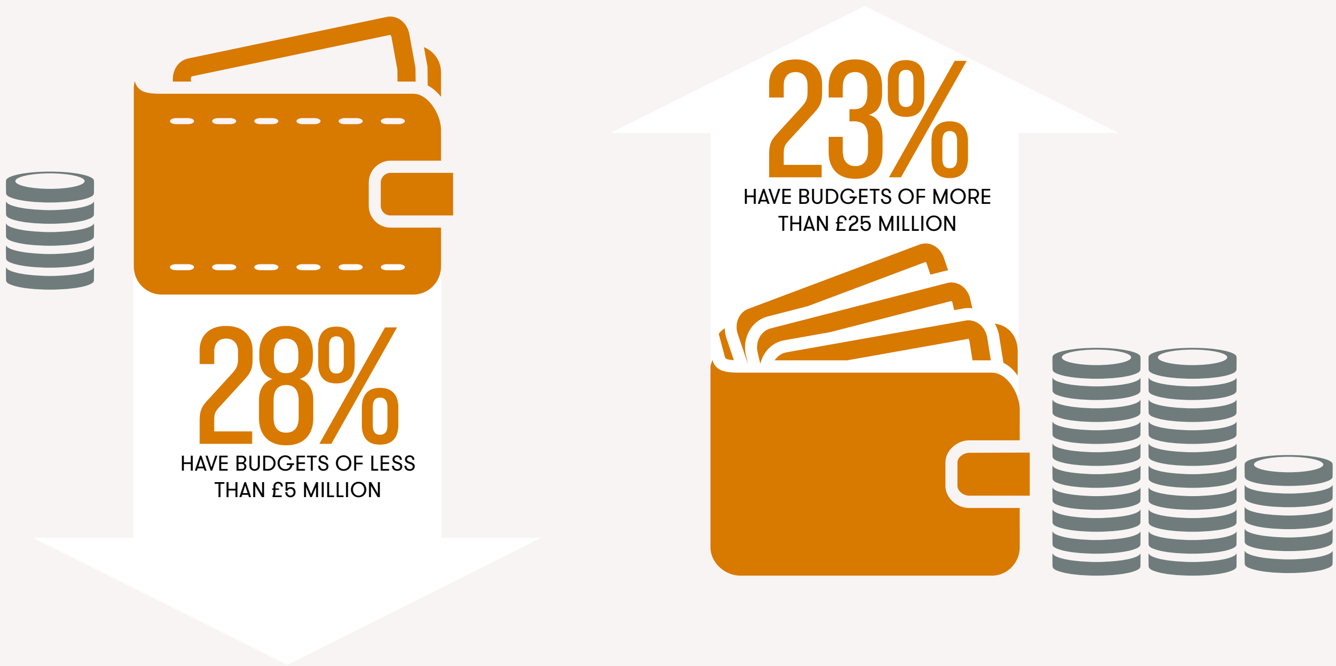


- END USER OF FACILITIES SERVICES (CLIENT)
- PROVIDER OF FACILITIES SERVICES (SUPPLIER)
- FM CONSULTANT/OTHER

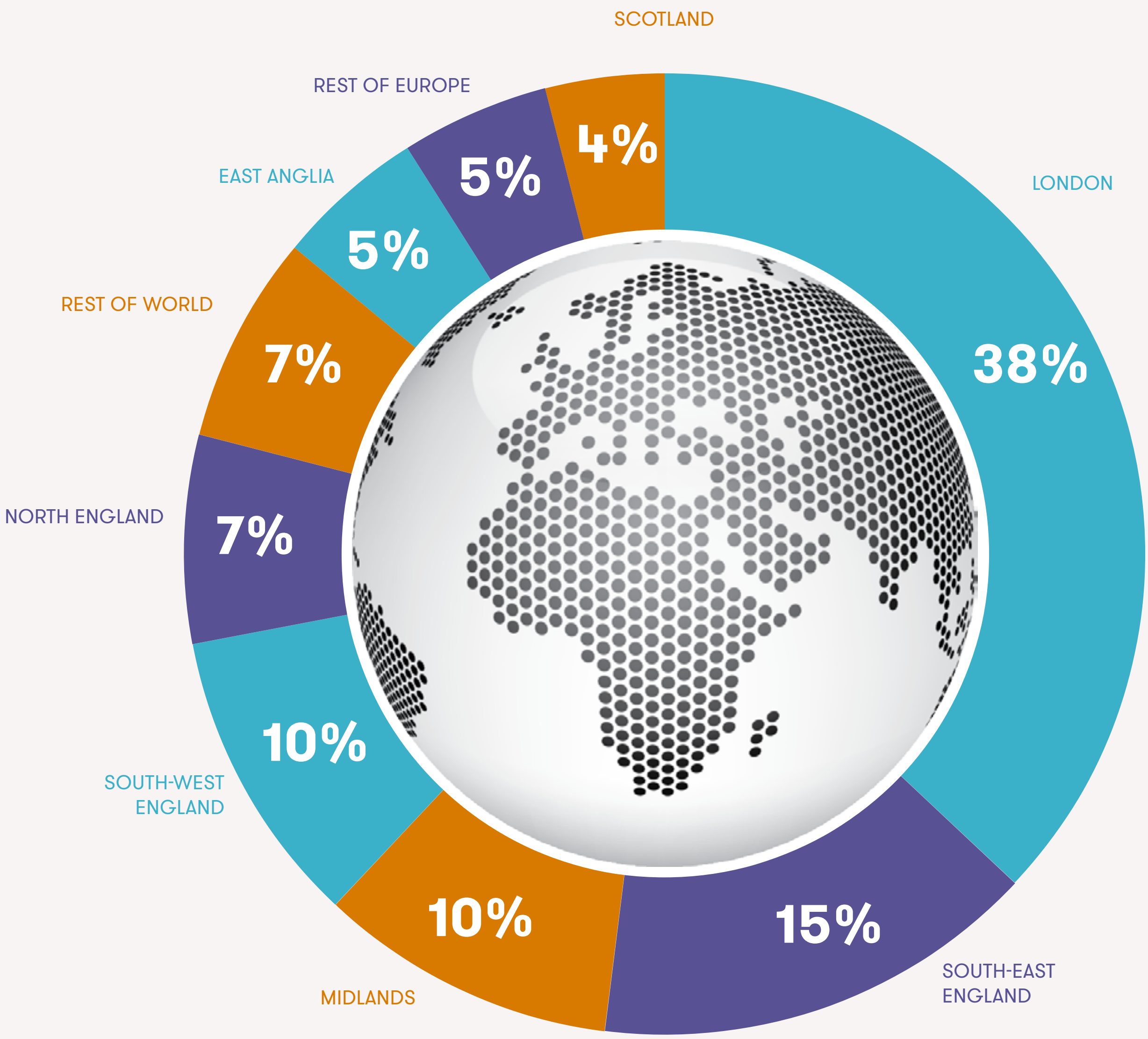
SECTOR SPLIT



BUDGETS



LOCATION



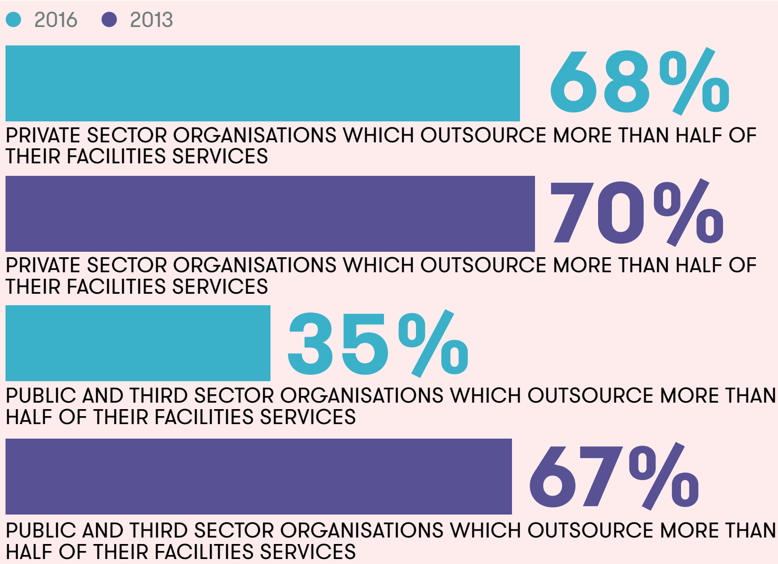
1

Outsourcing trends

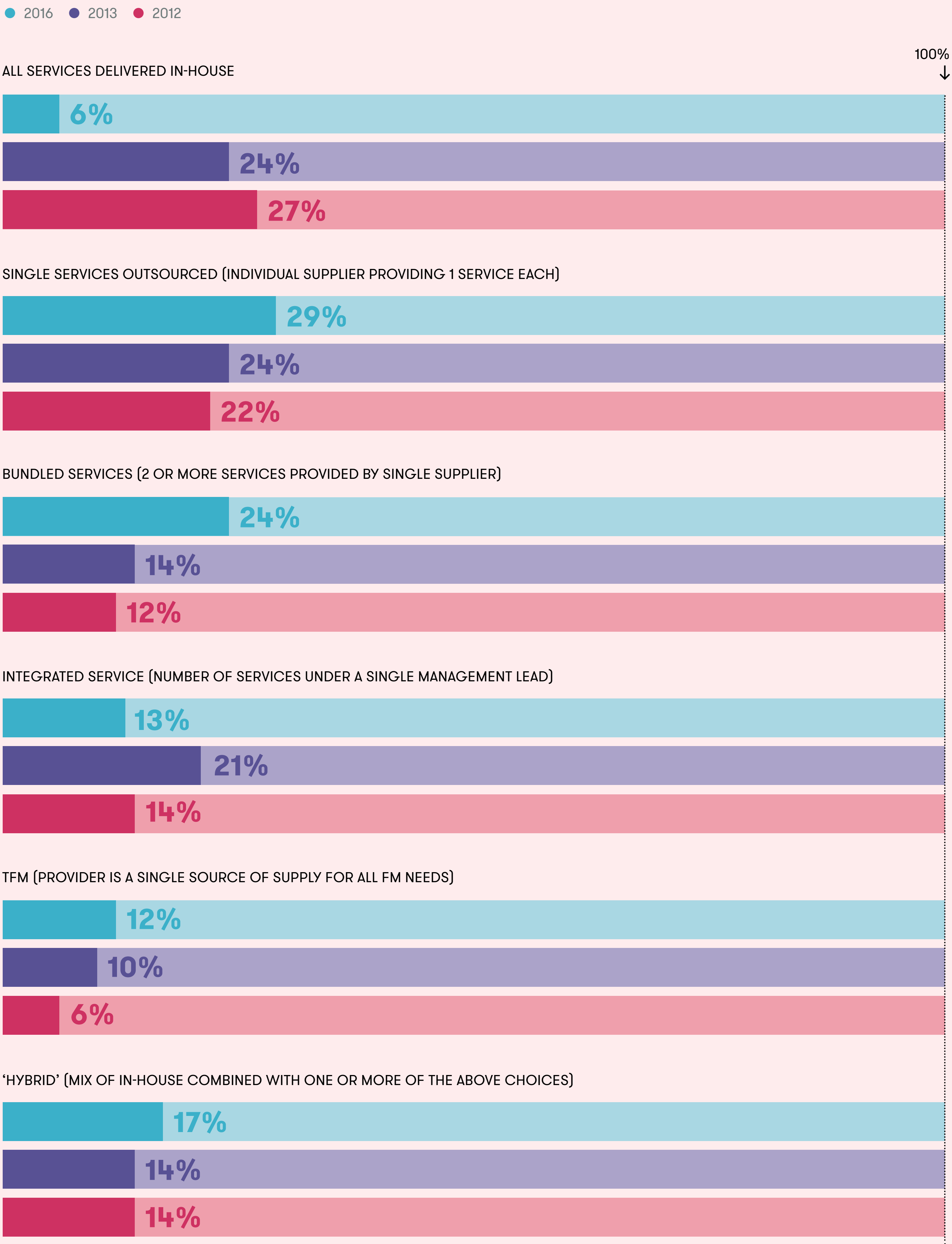
While there are headline cases in the press of FM being brought back in-house, the research demonstrates a continued trend towards outsourcing, with those organisations which outsource doing so to a much greater degree. End-users deliver facilities services through predominately single, bundled or hybrid (in-house plus other service delivery models) with little in-house provision in comparison to previous years. These models are used to predominately deliver workplace facilities services, such as pest control, cleaning, waste management and security, rather than portfolio, strategy and planning services. As financial drivers such as costs and savings continue to drive outsourcing choices, it is unsurprising organisations are choosing services that lack professionalisation and have clear, but possibly constrained, cost margins. The good news is that end-users believe that their suppliers are more successful in meeting their outsourcing objectives than in the past.

HIGHLIGHTS

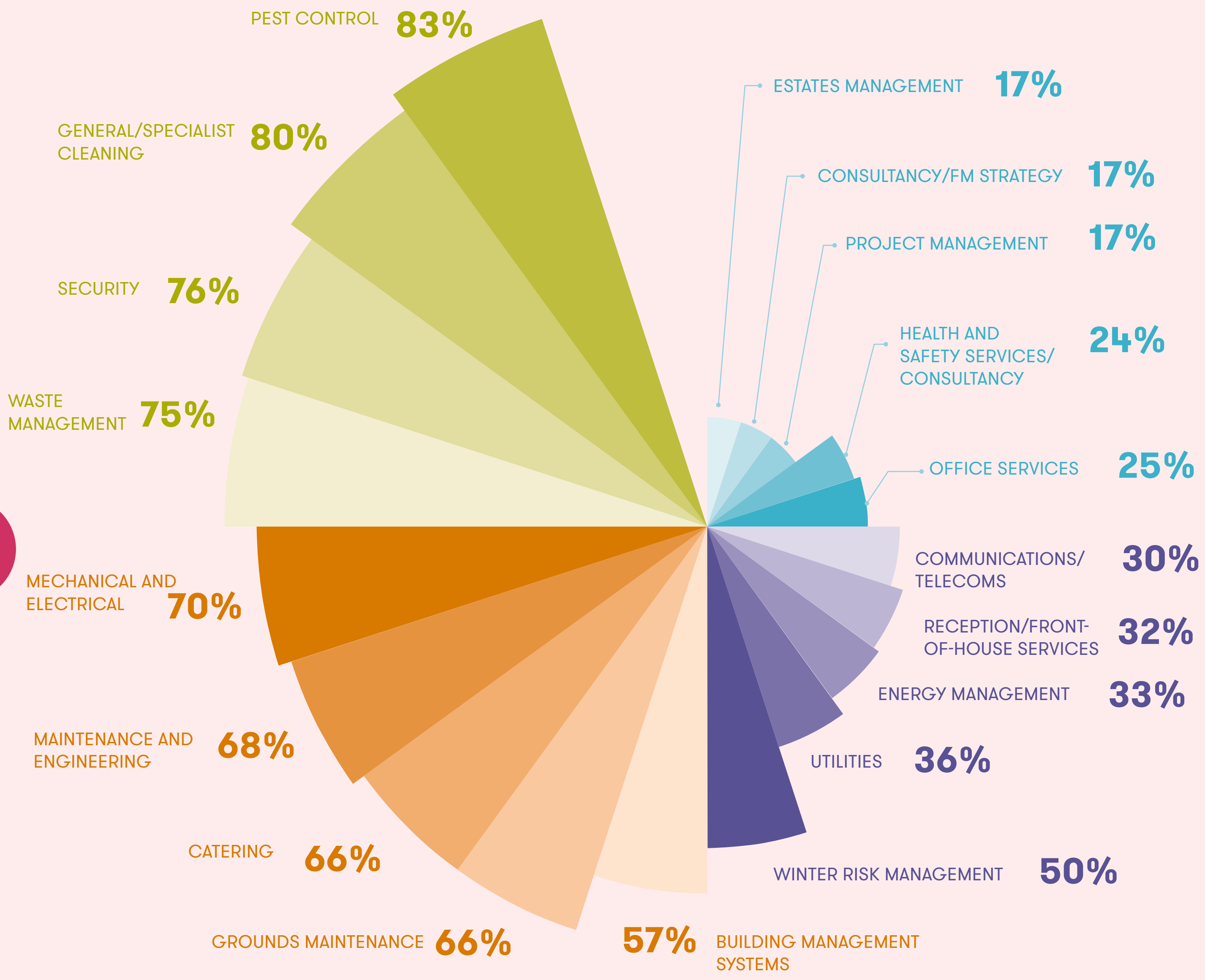
69%
OUTSOURCE MORE THAN HALF OF THEIR FACILITIES SERVICES



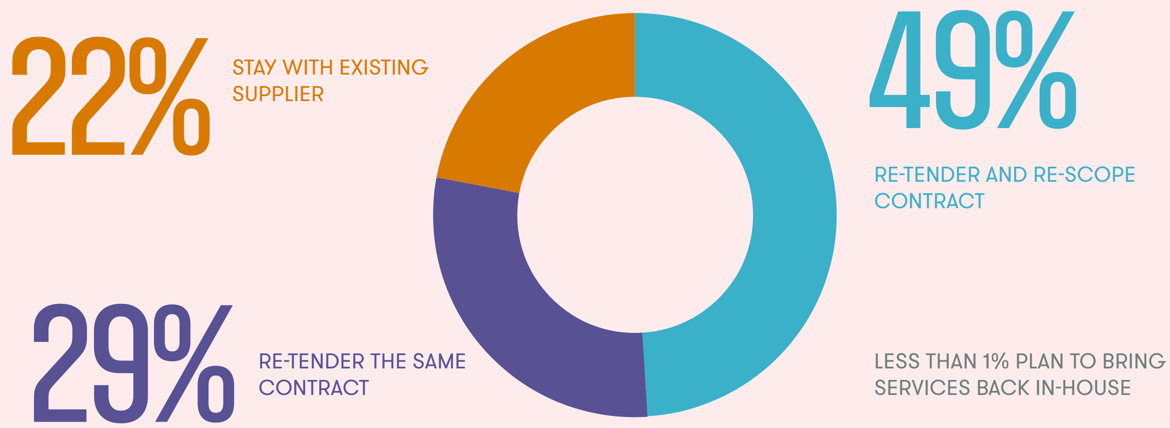
HOW ARE YOUR SERVICES CURRENTLY DELIVERED?



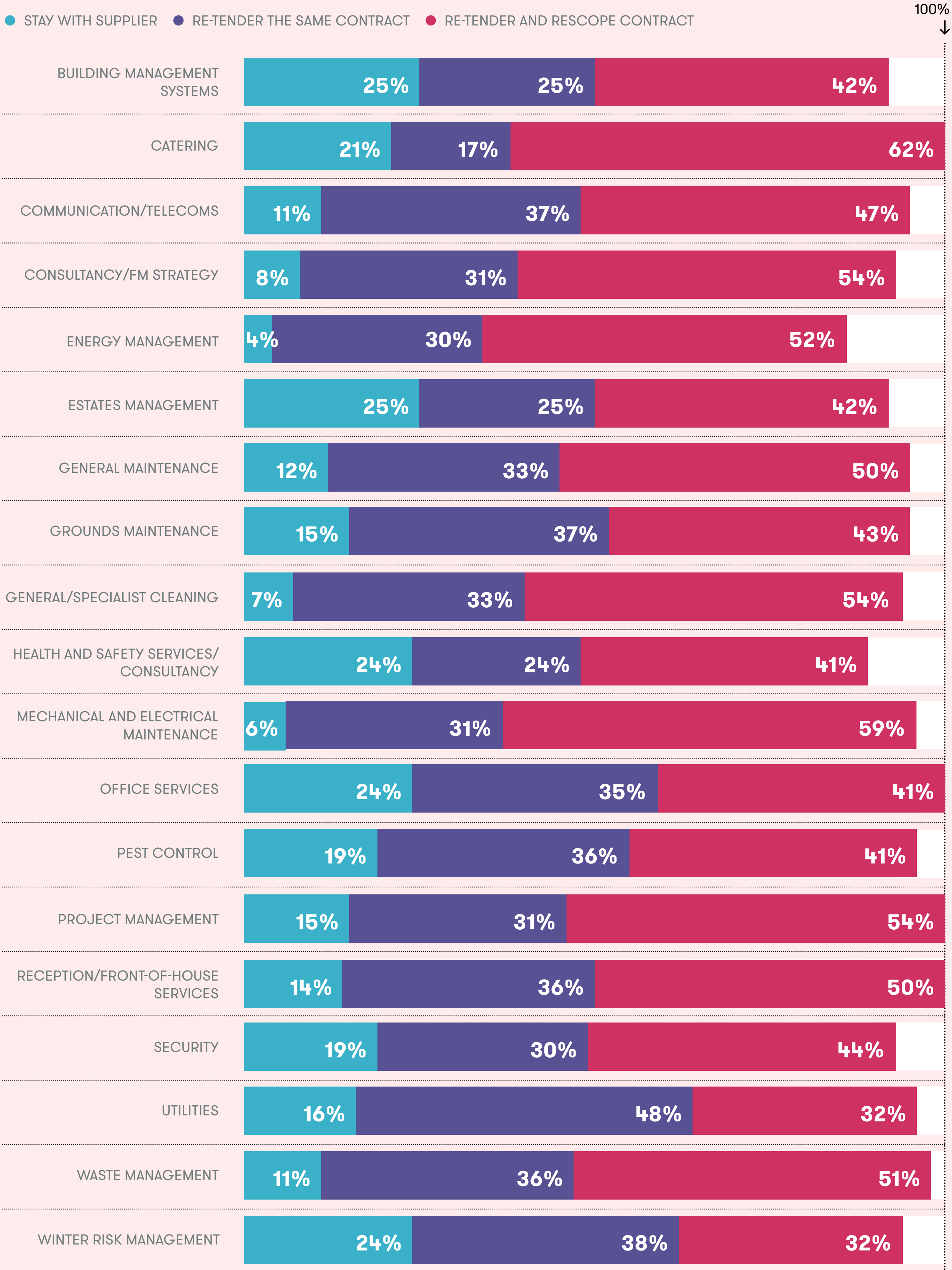
SERVICES CURRENTLY BEING OUTSOURCED



WHAT WILL YOU DO WHEN YOUR FACILITIES CONTRACT(S) COME TO THE END OF THEIR TERM?



THE FUTURE OF FACILITIES CONTRACTS



KEY POINT

LESS THAN 10 PER CENT OF RESPONDENTS FELT THEY WOULD STAY WITH THEIR CURRENT M&E OR CLEANING SUPPLIER WHICH IS PARTICULARLY INTERESTING AS THESE ARE THE MOST FREQUENTLY OUTSOURCED SERVICES.

OUTSOURCING OBJECTIVES

HIGHLIGHTS

67% FINANCIAL SAVINGS

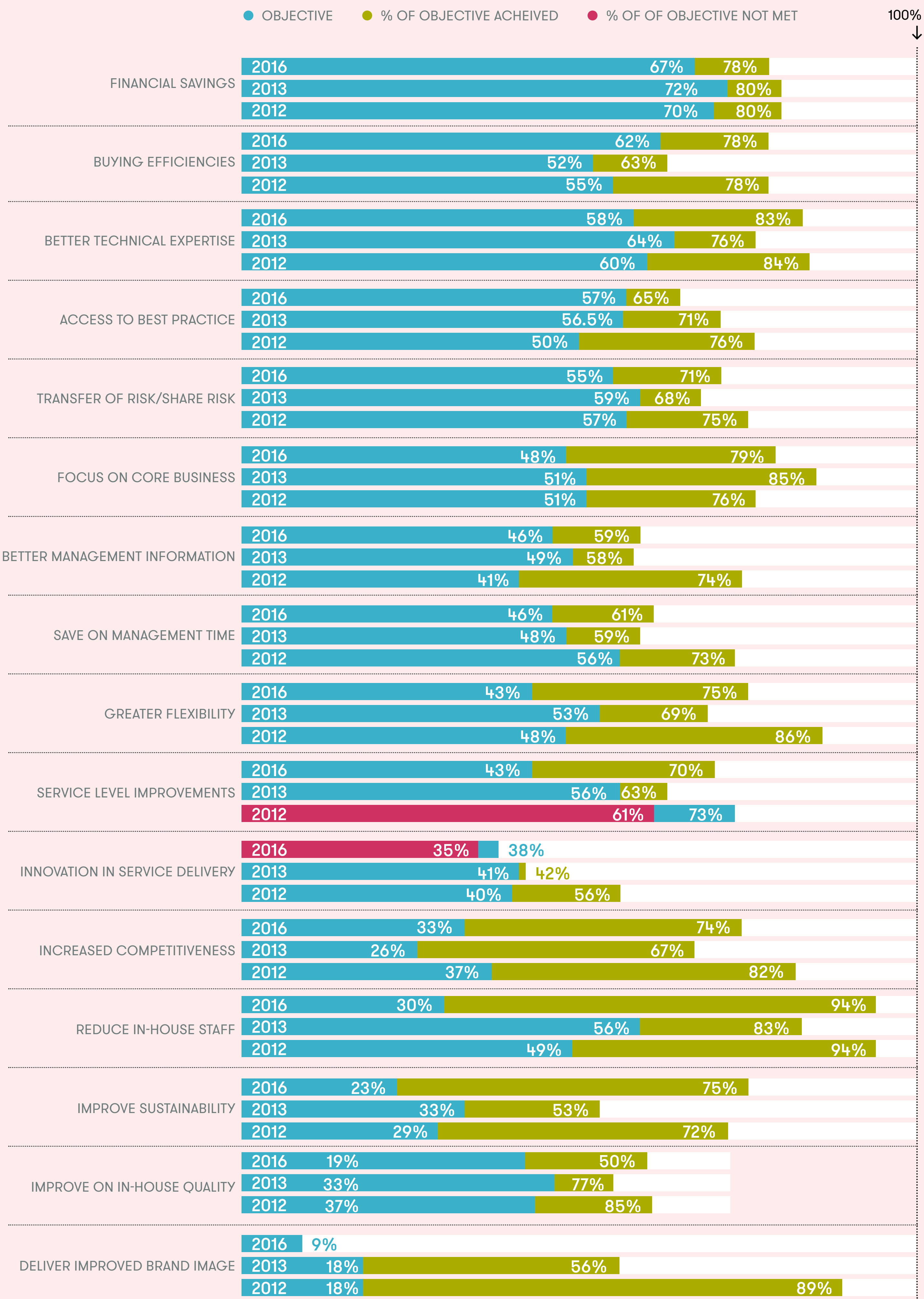
62% BUYING EFFICIENCIES

58% BETTER TECHNICAL EXPERTISE

4 YRS FINANCIAL SAVINGS HAS BEEN THE NUMBER ONE OUTSOURCING OBJECTIVE FOR ALL FOUR YEARS OF THE RESEARCH

WHAT'S IMPORTANT WHEN EVALUATING TENDERS OR BIDS?

WHAT IS YOUR OBJECTIVE FOR OUTSOURCING AND HAS IT BEEN ACHIEVED?



2

Buyer and provider relationships

The issue of finance continues to dominate outsourcing as both buyers and providers consider financial savings important to a successful relationship. At the same time clients and suppliers feel that it is very important that they each bring new ideas to the table – although service providers place more emphasis on this than buyers. Communication and working together as a team are the top areas that both consider should be improved upon to better their outsourcing efforts – a similar view to the survey three years ago. Interestingly more of those bidding for services than those putting out the tenders feel there is room for improvement in the initial request for proposals and briefings (58% and 45% respectively). Conversely, more buyers feel there is room for improvement in KPIs and reporting (60% vs 48%) and service level agreements (64% vs 46%) than service providers and FM consultants.

HIGHLIGHTS

4.5/5

ACCESS TO BEST PRACTICE IS THE MOST IMPORTANT THING IN BUYER/PROVIDER RELATIONSHIPS

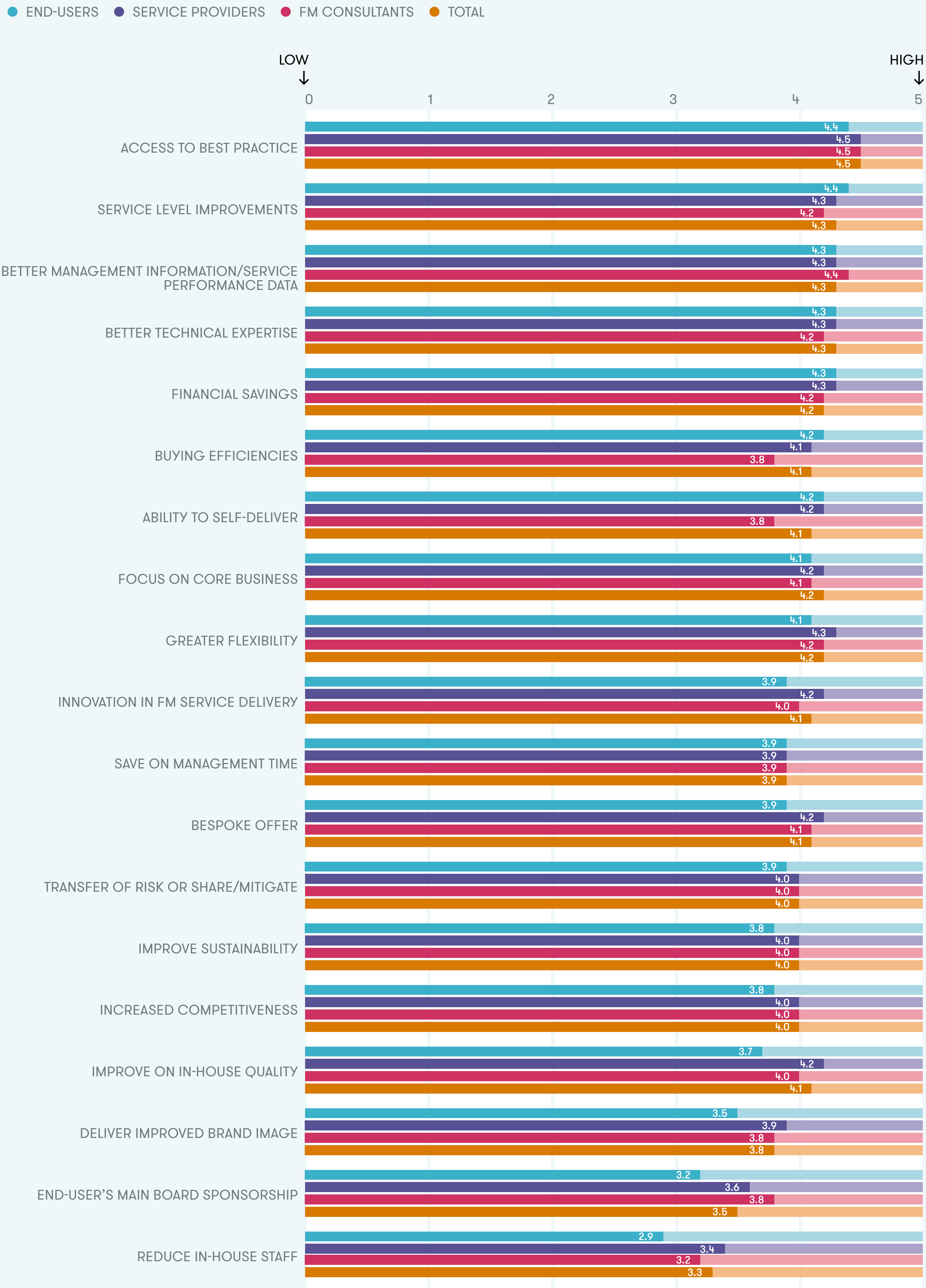
4.3/5

SERVICE LEVEL IMPROVEMENTS, BETTER MANAGEMENT INFORMATION AND BETTER TECHNICAL EXPERTISE ARE ALSO IMPORTANT

THREE WAYS TO IMPROVE OUTSOURCED RELATIONSHIPS:

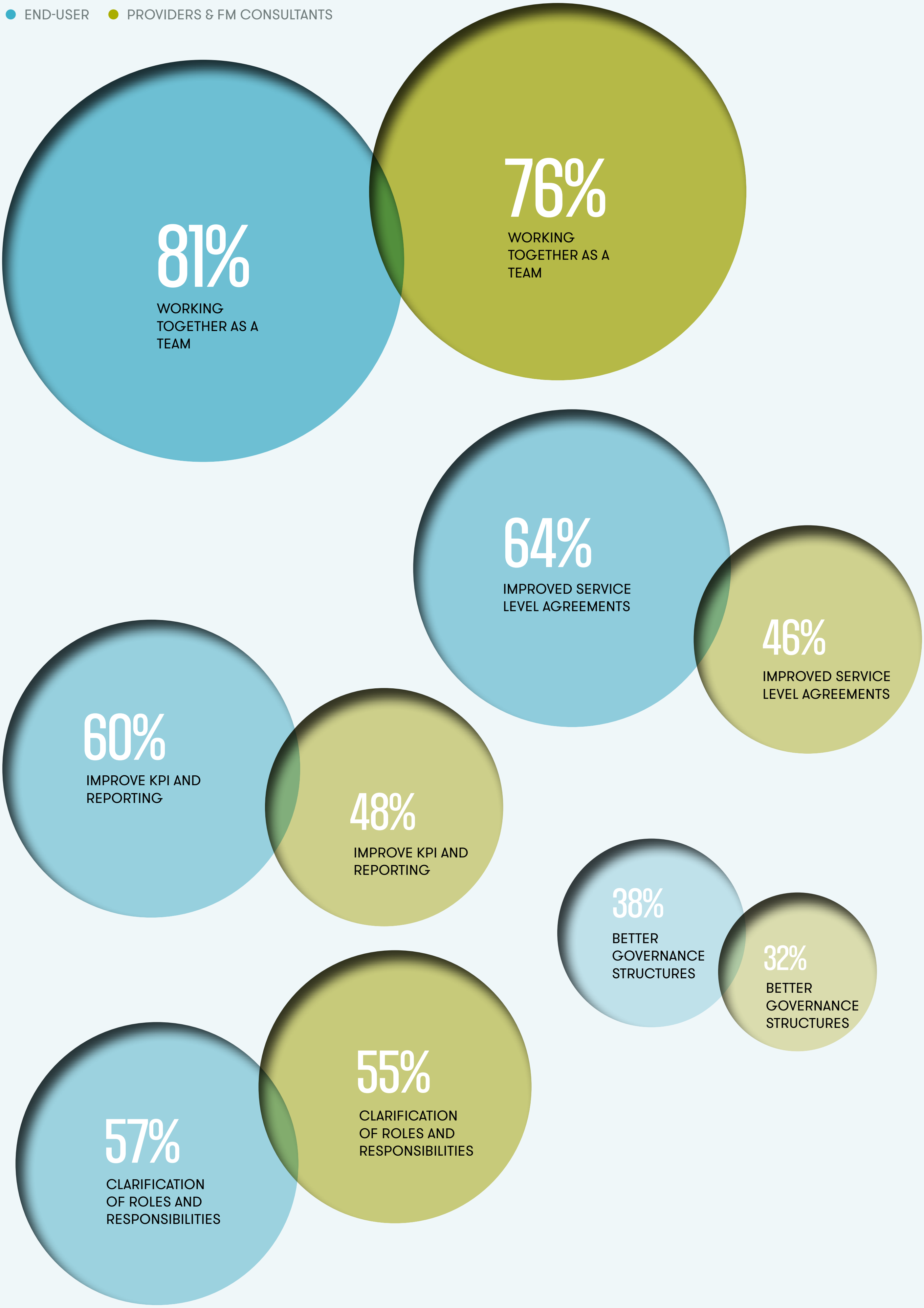
- WORKING TOGETHER AS A TEAM
- IMPROVED COMMUNICATION
- BETTER ALIGNMENT OF STRATEGIES/PLANS

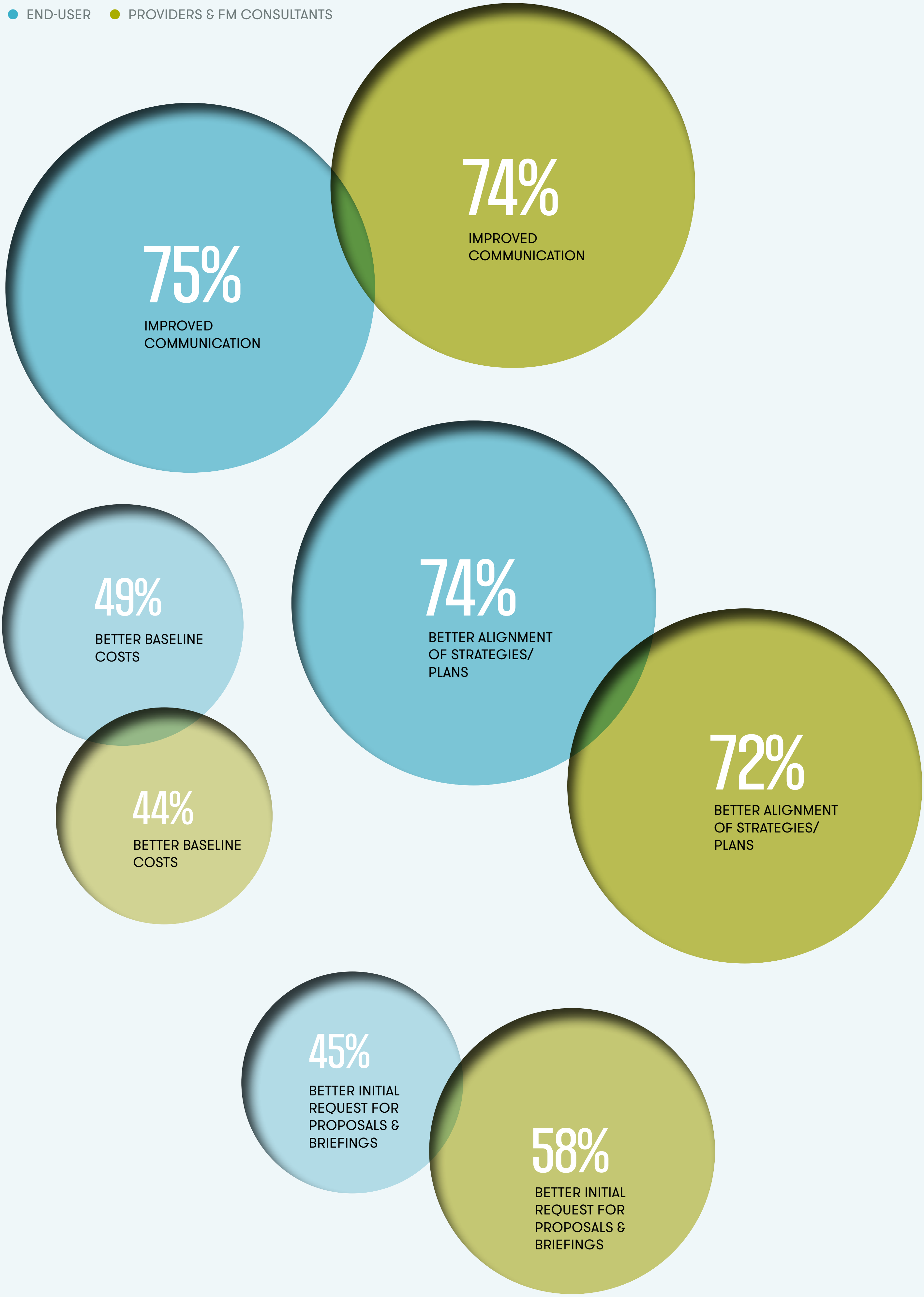
WHAT'S IMPORTANT TO A SUCCESSFUL SUPPLIER/CLIENT RELATIONSHIP?



HOW CAN WE IMPROVE OUTSOURCED RELATIONSHIPS?

● END-USER ● PROVIDERS & FM CONSULTANTS



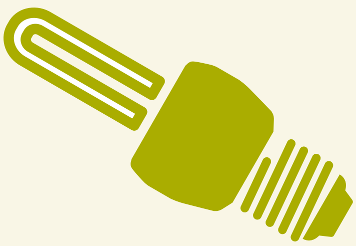

END-USER
PROVIDERS & FM CONSULTANTS
75%
IMPROVED COMMUNICATION
74%
IMPROVED COMMUNICATION
49%
BETTER BASELINE COSTS
44%
BETTER BASELINE COSTS
74%
BETTER ALIGNMENT OF STRATEGIES/ PLANS
72%
BETTER ALIGNMENT OF STRATEGIES/ PLANS
45%
BETTER INITIAL REQUEST FOR PROPOSALS & BRIEFINGS
58%
BETTER INITIAL REQUEST FOR PROPOSALS & BRIEFINGS

3

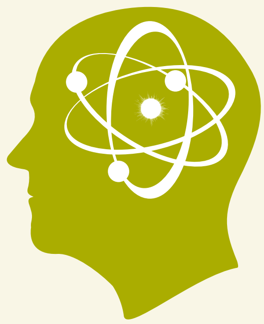
Innovation

Innovation is higher on the agenda in terms of facilities service delivery than what appears in terms of outsourcing objectives. The sector believes it is innovating generally, and more so than in 2013, but the innovation is largely coming from service providers and not their clients. This dichotomy could be attributed to either service providers not communicating or marketing their innovation activity to end-users of their services. Alternatively, service providers could not be including end-users in the design and implementation of their innovation activity. This does resonate with few end-users choosing innovation as an outsourcing objective. This suggests that suppliers might need to be clear from the outset regarding their perceptions of 'innovation' and how their services are truly innovative to end-users. Innovation is seldom made a requirement in service delivery using externally accountable methods like contract terms (15%) or SLAs (22%) – a decrease from 2013. Instead KPIs or client engagement surveys dominate as the methods used to measure innovation activity.

HIGHLIGHTS



INNOVATION IS MUCH MORE MAINSTREAM NOW THAN IT WAS THREE YEARS AGO WITH 61% OF ORGANISATIONS INNOVATING NOW COMPARED TO 42% OF ORGANISATIONS THREE YEARS AGO WHEN THIS RESEARCH WAS LAST CONDUCTED



SERVICE PROVIDERS ARE MORE INNOVATIVE (94%) ACCORDING TO THE RESEARCH THAN END-USERS (75%) OR FM CONSULTANTS (73%) INDICATING THAT INNOVATION IS LED BY THE SUPPLIER COMMUNITY

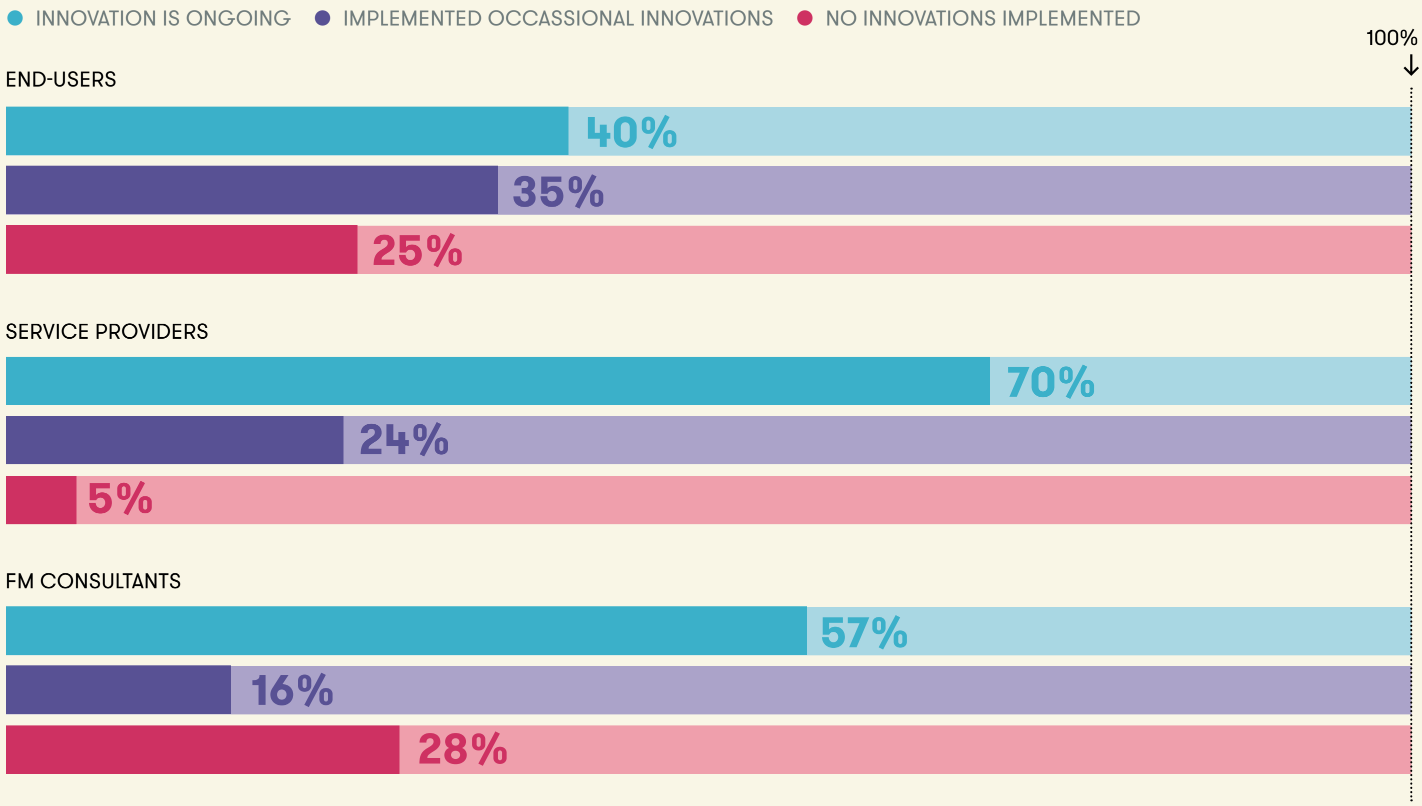
HOW INNOVATIVE IS THE FM SECTOR?

61% OF ORGANISATIONS ARE IN THE PROCESS OF INNOVATING

24% HAVE IMPLEMENTED THE OCCASIONAL INNOVATION

14% HAVE NOT UNDERTAKEN AN INNOVATION ACTIVITY

IN THE PAST THREE YEARS HAS YOUR ORGANISATION BEEN INVOLVED IN DESIGNING OR IMPLEMENTING INNOVATION(S) IN FACILITIES SERVICES?



THERE ARE FIVE TYPES OF FM INNOVATION REPORTED:

TECHNOLOGICAL INNOVATIONS
Development of bespoke software systems or apps for clients which can be used for automated reporting/remote monitoring, to track usage of energy/services, manage people (training, recruitment, attendance); robotics

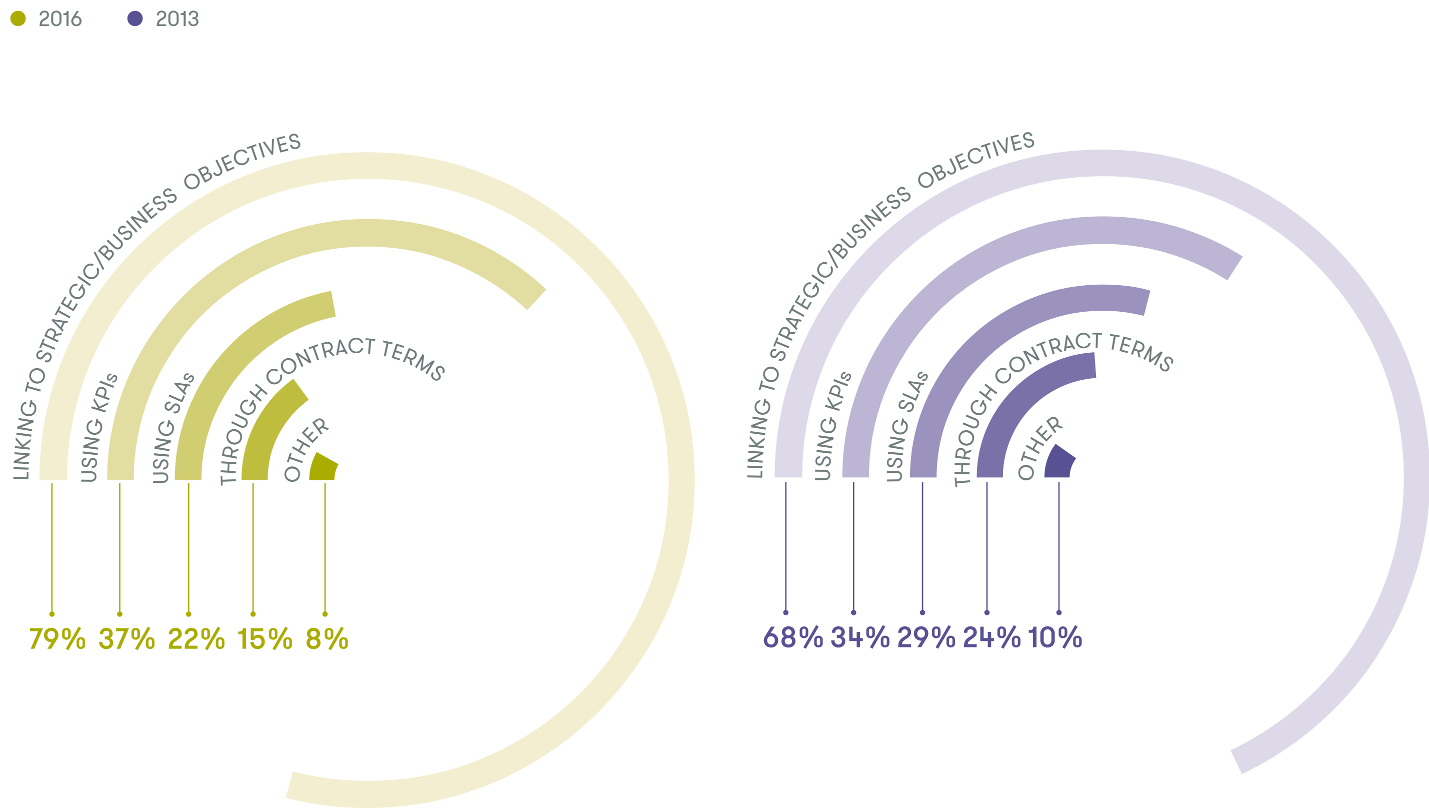
ENVIRONMENTAL INNOVATIONS
Methods to lower or monitor energy consumption, reduction of carbon footprint, dealing with issues of CSR, recycling, waste reduction strategy & programmes, use of technology to monitor energy consumption

ORGANISATIONAL INNOVATIONS
Introduction of new approaches to staff training, new ways of working internally, new staff posts or altering current job roles, reward and recognition initiatives, up-skilling current staff, repurposing office space/improving use of internal space

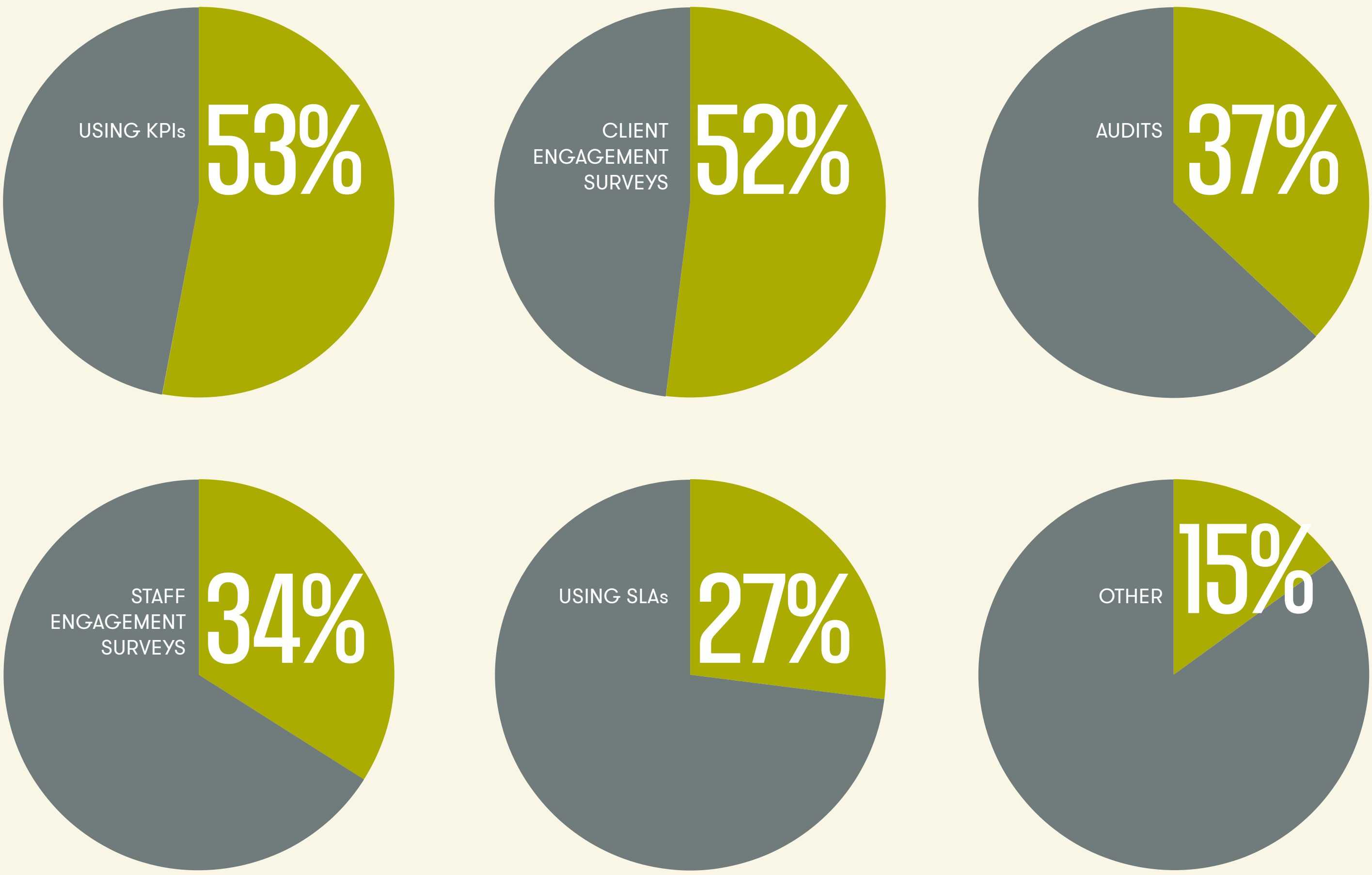
PROCESS INNOVATIONS
Introduction of new techniques, equipment or software like cashless payments, robotic cleaning equipment or tablets

PRODUCT INNOVATIONS
Developing an entirely new service for a client to meet their specific needs, often this involves the development of bespoke software systems or adopting a new technology

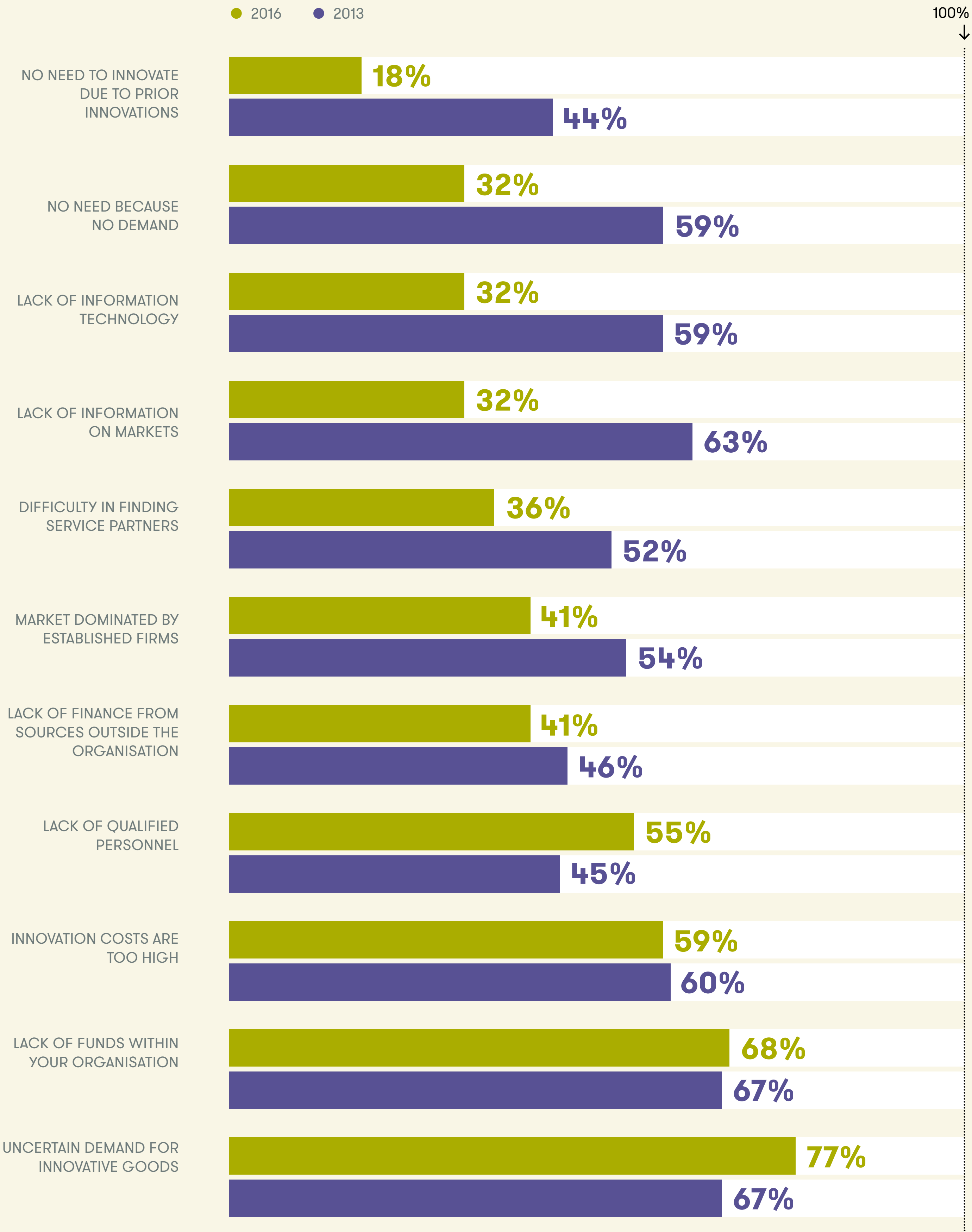
HOW DO YOU MAKE INNOVATION A REQUIREMENT IN SERVICE DELIVERY?



HOW DO YOU MEASURE INNOVATION?



BARRIERS TO INNOVATION



4

The future

Looking forward over the next five years, outsourcing of FM services will continue to be important and dominate the market. Demand for TFM/TFMPS, bundled and integrated forms of service delivery is perceived to increase – while single services are to decrease. Ability to focus on core business, value for money, reducing costs and added value are considered to be the most important factors when outsourcing over the next five years, similar to that found in 2013.

Game changers over the next five years are considered to be the use of technology in relation to improving the delivery services and transparency and subsequent cutting of costs; the changing culture and attitudes towards working resulting in changes to how people work and communicate; the concept of big data or analytics to inform decision marking; changes in legislation through the introduction of the Living Wage and Brexit; cost through increased competition, and reduced budgets of end users; and innovation and sustainability.

HIGHLIGHTS

38%

OVER ONE-THIRD OF RESPONDENTS INDICATED THAT OUTSOURCING WILL CONTINUE TO BE LED THROUGH A FEW BIG MULTI-SERVICE PROVIDERS

19%

MORE RESPONDENTS PREDICTED THAT FACILITIES SERVICES WILL BE ABSORBED INTO WIDER BUSINESS PROCESS OUTSOURCING (BPO) CONTRACTS THAN THEY DID IN 2013 (8%)

>

DEMAND FOR EUROPEAN/GLOBAL OUTSOURCING DEALS LOOKS TO EITHER STAY THE SAME OR INCREASE OVER THE NEXT FIVE YEARS

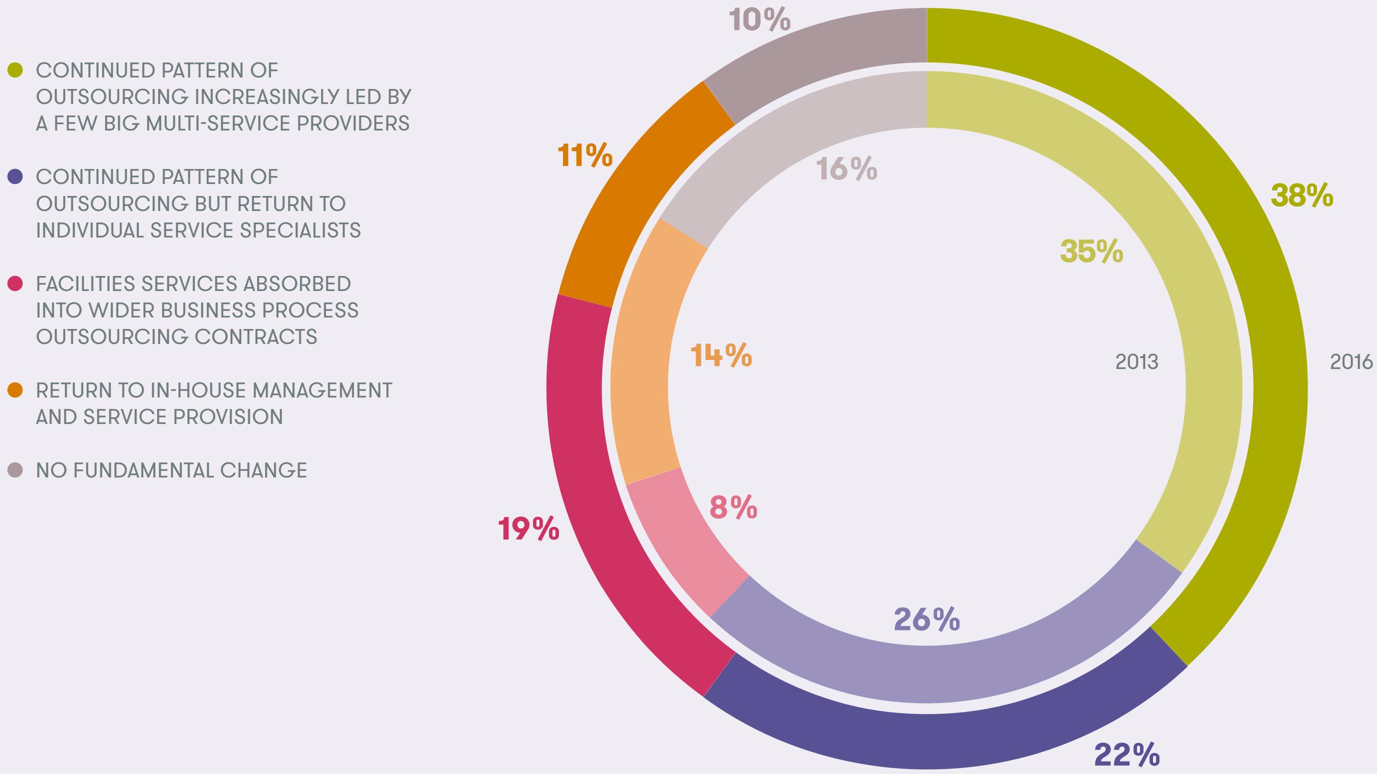
HALF

NEARLY HALF OF RESPONDENTS FELT THE DEMAND FOR SINGLE SERVICES WILL DECREASE OVER THE NEXT FIVE YEARS

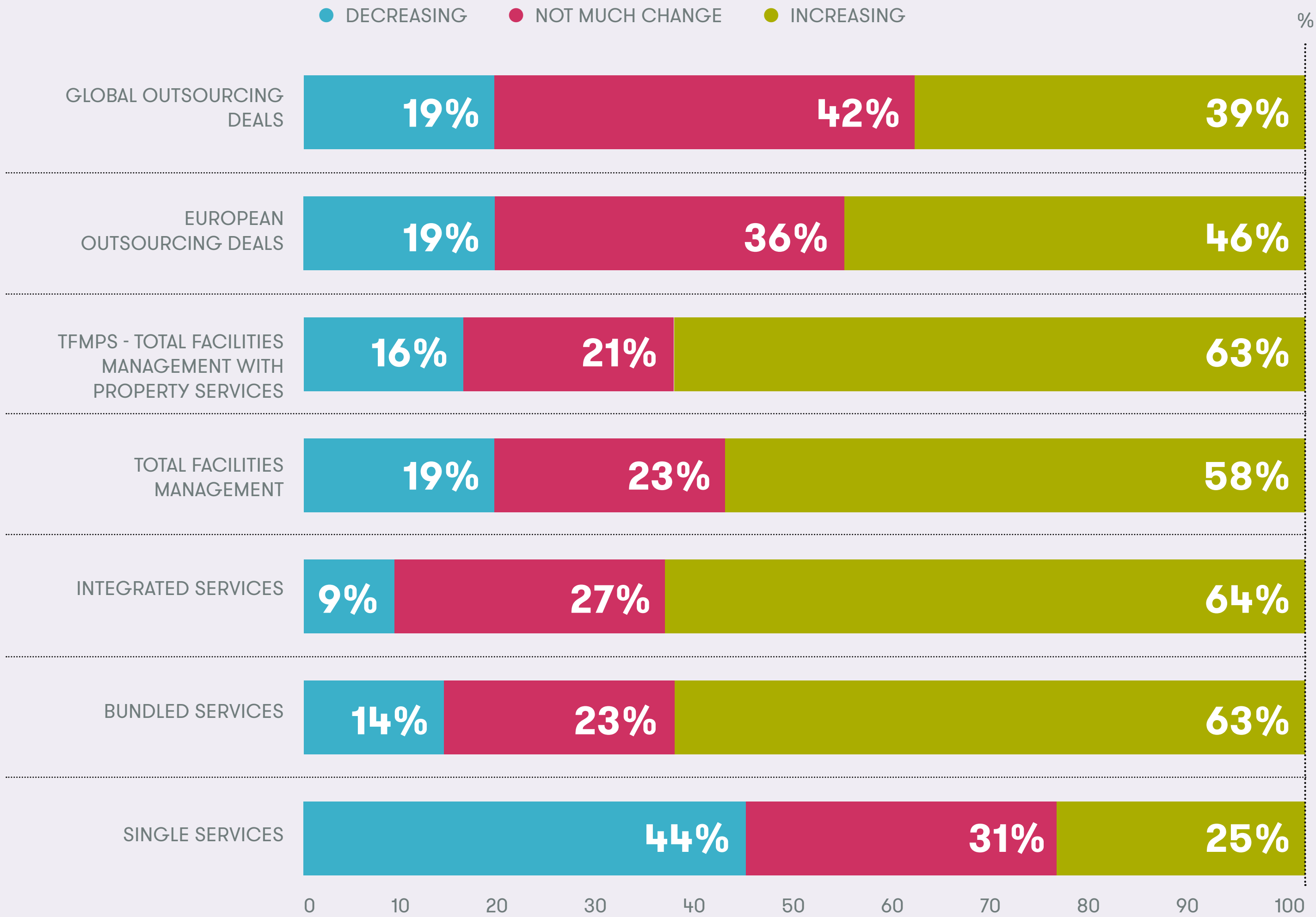
5 YRS

ABILITY TO FOCUS ON CORE BUSINESS, VALUE FOR MONEY, REDUCING COST, ADDED VALUE ARE CONSIDERED TO BE THE MOST IMPORTANT FACTORS WHEN OUTSOURCING OVER THE NEXT FIVE YEARS, SIMILAR TO 2013

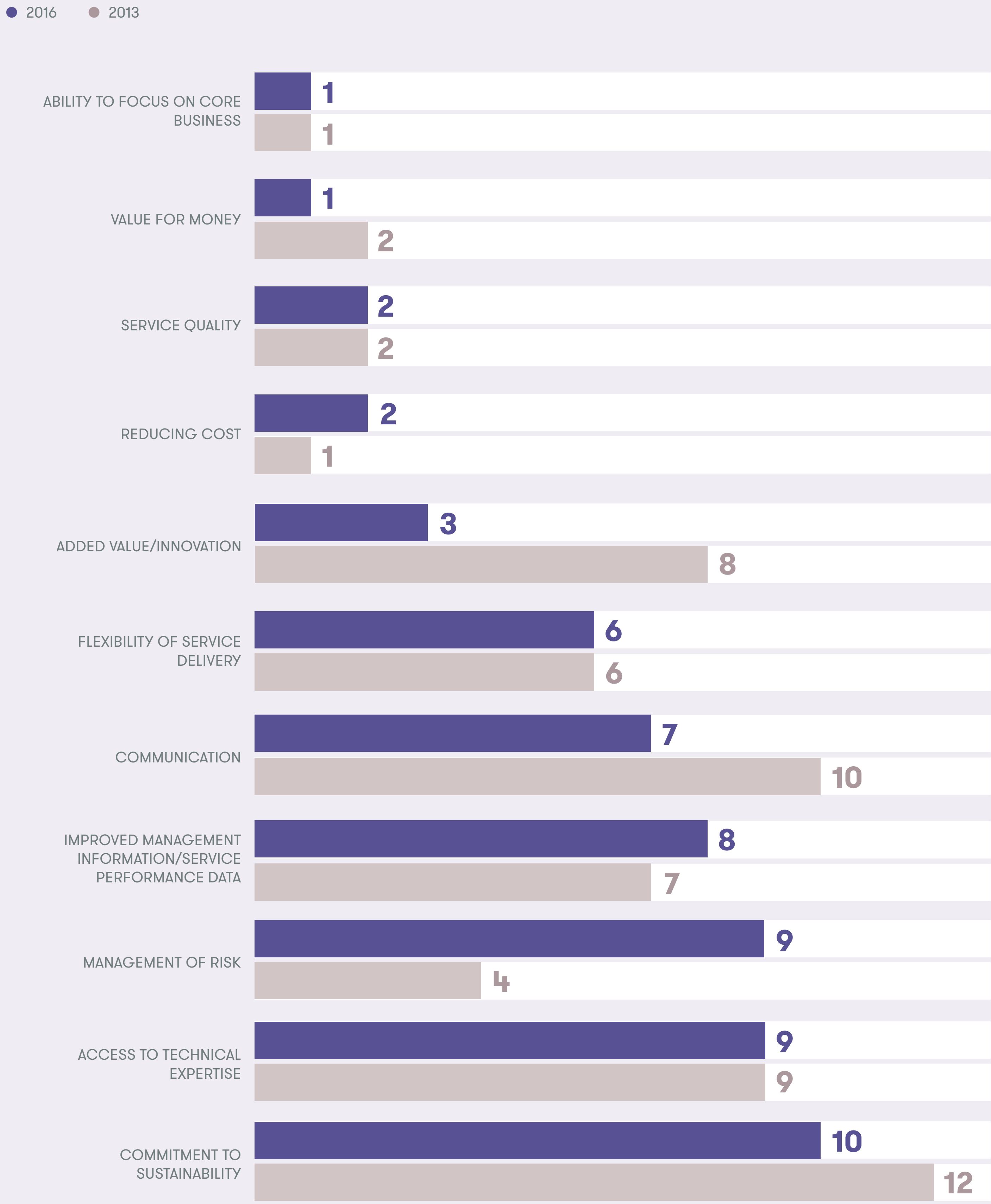
DO YOU THINK THE FM MARKET WILL CHANGE FUNDAMENTALLY IN THE NEXT FIVE YEARS?



IN THE NEXT FIVE YEARS, HOW WILL DEMAND CHANGE FOR FM MODELS?



TOP REASONS FOR OUTSOURCING IN THE FUTURE



RANKED IN ORDER OF IMPORTANCE

WHAT ARE THE GAME CHANGERS FOR THE FM SECTOR OVER THE NEXT FIVE YEARS?

USE OF TECHNOLOGY – SURGE IN TECHNOLOGY TERMS OF IMPROVING THE DELIVERY SERVICES THROUGH ROBOTICS, SOFTWARE PROGRAMMES AND APPS ('UBERISATION'). THESE ARE SEEN TO IMPROVE TRANSPARENCY BETWEEN END-USER AND SUPPLIER, SERVICE QUALITY AND COSTS. SPECIFICALLY INTERNET OF THINGS (IOT) WAS FREQUENTLY MENTIONED AS A GAME CHANGER

LEGISLATION AND EU – THE INTRODUCTION OF THE LIVING WAGE WAS MENTIONED AS HAVING IMPACTS ON THE SECTOR BY DRIVING UP COSTS; THE PENDING EU REFERENDUM WAS MENTIONED BY A NUMBER RESPONDENTS ALTHOUGH THE IMPACTS OF AN EXIT WAS NOT MENTIONED

SUSTAINABILITY – IS MENTIONED AS IN PREVIOUS SURVEYS AS A GAME CHANGER BUT MOST RESPONDENTS ARE NOT CLEAR IN WHAT CAPACITY/CONTEXT

CULTURE CHANGE – CHANGES IN ATTITUDES/ CULTURE TOWARDS WORKING AND WORKSPACE – SPECIFICALLY HOW WAYS OF WORKING AND COMMUNICATING WILL EVOLVE OVER TIME, BE THIS THROUGH TECHNOLOGY (CREATING 'SMART WORKPLACES'), CHANGES TO THE BUILT ENVIRONMENT THROUGH THE CREATION OF FLEXIBLE OR VIRTUAL WORKSPACES AS PEOPLE BECOME LESS RELIANT ON ATTENDING OFFICES OR SHARING OF 'SERVICES' BETWEEN ORGANISATIONS

USING DATA – THE CONCEPT OF 'BIG DATA' OR 'ANALYTICS' WAS MENTIONED FREQUENTLY, A NUMBER OF RESPONDENTS FELT IT WASN'T JUST COLLECTING DATA BUT IMPROVING THE WAY ORGANISATIONS' INTERPRET AND ACT ON THE DATA – THEREFORE LINKING DATA TO DECISION MAKING AS A MEANS TO IMPROVE SERVICE PRODUCTIVITY AND QUALITY

INNOVATION – INNOVATION IS FREQUENTLY MENTIONED AS A GAME CHANGER BUT LIKE SUSTAINABILITY, RESPONDENTS DON'T EXPAND IN WHAT CAPACITY/CONTEXT

COST – MANY RESPONDENTS DISCUSS ISSUES OF COST, BE THIS DECREASING BUDGETS COUPLED WITH HIGH EXPECTATIONS FROM SERVICE USERS, INCREASED COMPETITION OR CHANGES TO LEGISLATION (LIVING WAGE, PENSIONS) DRIVING UP COSTS TO SERVICE PROVIDERS FOR EXAMPLE

KEY POINT / TECHNOLOGY, SUSTAINABILITY AND THE ECONOMY WERE THE KEY GAME CHANGERS IN 2013.

KEY POINT / INNOVATION AND SUSTAINABILITY ARE MENTIONED AS POTENTIAL GAME CHANGERS AND IMPORTANT BUT ARE STILL NOT RATED HIGHLY AS OUTSOURCING OBJECTIVES.

GLOSSARY

SINGLE SERVICE: individual suppliers providing one service each

BUNDLED SERVICES: two or three services provided by a single supplier

INTEGRATED SERVICES: a number of FM services are delivered under a single management team

TOTAL FACILITIES MANAGEMENT: the FM provider is a single source of supply for all your facilities management needs

TOTAL FACILITIES MANAGEMENT AND PROPERTY SERVICES: the FM and Property services provider is a single source of supply for all your facilities and property management needs

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