

# Outsourcing of real estate services

## 1: Mindset

Sourcing real estate services is a complex issue. There are no 'cookie cutter' solutions and your company's context will give rise to a unique approach. This paper will help you form the right mindset to get started and to consider the support you might need.

## 2: Mapping the industry

How best to summarise a complex industry? Look at the accommodation life-cycle phases from planning to disposal (see diagram). Each phase attracts distinct service offerings interlinking real estate, capital works projects and facilities services. There is a lot on offer, and that's before fleet management and catering!

## 3: Initial overview

Review: (a) support services needed; (b) how these needs are currently satisfied; (c) all potential suppliers for these services; and (d) restrictions to competitiveness of suppliers. This will identify the potential for adding value, any gaps in your knowledge of what's on offer, and also the areas where early internal and external collaboration will be required.

## 4: Service bundling

Combine the required services that the market can reliably integrate. There may be overlaps and gaps. Each bundle will have essential goals and performance measures that link to your overarching business goals and targets (see [20 Thoughts on Balanced Scorecard](#)).

## 5: Risk and value

The higher the impact of the service (or risk of service failure) to the core business and/or the contribution of the service to competitive advantage, the less likely it is to be a good candidate for outsourcing.

## 6: Location of service

The place where services are required is very important. Some services are location specific (e.g. agency and facilities servicing), whilst others, such as design, may not be. Remember: this is an exercise in what the market is capable of delivering in each location, not just about what you would like. A lack of realism here encourages suppliers to over-promise and inevitably stumble.

## 7: Outsourcing the problem

An outsourcing initiative might just solve an existing organisational issue, but might just as easily make it worse. Define and fix as many problems before going to the market, and define as clearly as possible those issues that you expect the supplier to tackle as part of your contract.

## 8: Pro-outsourcing lobby

Don't expect the services sector to be objective about your suitability for outsourcing. The business may not be ready to outsource certain elements, or at least not to the degree or for the duration suggested.

## 9: Dysfunctional barriers to outsourcing

Why do organisations avoid outsourcing despite the business case for it? Possible answers include: too expensive to lay off employees (social burden); key managers are gate-keeping (value destruction); too complicated (wrong priorities); and cultural ('not invented here' syndrome).

## 10: Credible in-sourcing reasons

These fall into four areas: (a) core business (see point #5); (b) no supplier market

(underdeveloped economies, war zones); (c) confidentiality (untrustworthy local third parties); and (d) contract compliance (poor respect for contracts, questionable governance). Each of these can be a 'show-stopper'.

## 11: Contract or concession

The best contracts have a concessionary element, a 'make of it what you will' dimension, encouraging the supplier to bring additional opportunities which can save you money, make you more efficient, or lead to happier clients (tick or delete as appropriate). This leverages their expertise (see next point).

## 12: Outsourcing evolution

Currently, there are three stages of evolution to service outsourcing: (a) 'traditional' (driven by non-core process and function cost-cutting); (b) second generation outsourcing (driven by the need to achieve best practice through supply chain innovation, operational efficiencies); and (c) Transformation and Partnering Outsourcing (TPO) (driven by the need for flexibility to achieve best alignment with the changing business model).

## 13: TPO limitations

TPO addresses two factors: (a) cost reduction alone does not give sustainable competitive advantage; and (b) service innovation and demand-supply flexibility are now seen as key ingredients to a winning sourcing strategy. TPO is limited as it requires a long-term partner who is capable of shifting service levels at short notice. TPO is difficult to resource, but in the current economic downturn, it is more achievable.

## Outsourcing of real estate services **continued**

### 14: New procedures

Sourcing changes create new relationships and processes, hence a key component here is to rewrite the procedures manual. This is the document that defines implementation and outlines the contract in such a way that non-lawyers are able to read and understand it. It is time-consuming but essential.

### 15: Account manager

This person must wake up each morning and care about your goals, understand your priorities. How they perform really matters. Control over who is appropriate in this key role must be viewed as a contractual issue.

### 16: Internal competition

The benefits of outsourcing may be questioned by some parts of the business which are of the opinion that services can be delivered just as efficiently internally. Great, let

them bid for the contract in a fair and equitable way. External suppliers will be sceptical of such competition, and the process would only work if it could be managed without a conflict of interest.

### 17: Requests for proposals

Create a simple-to-understand RFP, using an industry-familiar pricing framework. Clearly link your corporate, functional and customer goals to the service standards requested. Consider restricting the length of tender responses, but allow as long a tender period as possible.

### 18: Phantom tenders

Make it clear that the company sincerely intends to make an appointment. A justifiable fear of tenderers is that you will not actually award a contract to anyone. Many contract enquiries will be aimed at determining this risk. **What can you do to allay their fears?**

### 19: Transferring employees

In terms of the tender, the RFP needs to make the financial aspects of transfer 'competition-neutral'; i.e. all tenderers work off the same figures. The focus should be on the supplier's competency to manage the transition and reputation as a fair employer. The proposed employment contract should form part of the submission.

### 20: Intelligent client function

There will always need to be someone on the buyer's side with a technical understanding of what is being bought, a capability of assessing contractual performance, compliance, etc. **Will this role continue beyond the contract mobilisation period?**

This document is part of the "20 Thoughts on..." series, available at [www.casp-r.com](http://www.casp-r.com)

Client	Business planning	Funding approvals	Design specification	Business continuity	Workplace performance	Relocation
	PLANNING	ACQUISITION	DEVELOPMENT	OPERATION	RENOVATION	DISPOSAL
CASP-R	Accommodation strategy	Due diligence	Project oversight	Best practice audit	Workplace strategy	Dilapidations advice
Legal	Document audit	Conveyance	Legal consents	Manage disputes	Legal consents	
Brokers	Provide market data	Site search	Tenant acquisition	Void marketing		Sell surplus
Project managers		Feasibility studies	Manage project		Manage contract	Move management
Designers		Provide design brief	Design	Workplace assessments	Design	
Builders			Construction	Complete commissioning	Execute works	Reinstatement works
Property managers			Organise facilities services	Manage facilities	Ensure safe occupancy	Manage tenant exit
Facilities services co				Deliver service levels	Support works	Decommission plant

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