

CRE outsourcing – to be or not to be?

Rodney Timm details the best ways to get the most from CRE outsourcing.



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A number of high profile corporate real estate outsourcing contracts have recently been out to tender or calling for expressions of interest. With significant outsourcing occurring in Australia over the past decade, you would have expected the market to have matured significantly. But has anything changed?

At first glance, it is still the usual group of four or five service-providers that attend the briefings and go through the beauty parades. Some have grown larger, some have more sophisticated client-focus systems and yet the compelling outsourcing driver, still being dictated by these corporations, appears to be cost savings. And with more and more real estate functions reporting through to procurement departments – who tend to treat all real estate functions as commoditised price-based resources – this mindset will surely prevail.

But in this world of constant change, the alignment of real estate with business strategies can provide companies in most industries with a competitive market advantage. As part of this alignment it is essential to understand that cost savings, although they may be compelling, are not the only reason for outsourcing – and may, in many instances, be the wrong reasons.

In outsourcing there are three basic questions to be considered:

- What is the reason for outsourcing?
- What should be outsourced based on the reasons stated?
- How should the outsourced services be procured?

These three questions are all dependent on each other and if one is not aligned with the others, then it is likely that the outsourcing process will fail to meet expectations. If there is a need to change the answer to one of these fundamental questions, then the impact on the others needs to be considered and adjustments made accordingly. This fine balance needs to be maintained at all times.

However the starting point should always be with the key objectives, which are usually combined in some form. These may include:

Cost savings from ineffective service delivery: This is the most often cited reason why companies decide to outsource services. This is a compelling objective, particularly in those companies in which the subject services are being delivered inefficiently and ineffectively. An outsourcing strategy can provide a strong catalyst for realising savings.

Focus on core activities: Many organisations have a strategic motive to focus on the core activities of the business. It makes sense to outsource non-core activities and free up resources to focus on the “business of the business” even if there are no specific cost savings. This process permits the company to improve the focus on its core capabilities as key differentiators in the market.

Sharing of risks: Part of any compelling outsourcing strategy should be to transfer risk to the service provider. This may be a total or partial risk transfer but should revolve around the principle of risk being passed to

the party that has the best capacity to manage the risk at the lowest cost. Service providers with large portfolios often have the ability to carry a range of risks and thus provide services at lower costs.

Benefits of scalability: Cost saving benefits based on scale are not usually able to be realised by a company in isolation. The cost benefits of increasing the scale of an operation are available to service providers that can combine a number of contracts to the mutual benefit of all their clients. Usually these relate to geographic locations, stand-by service capacity and other similar aspects.

Access to “best practices”: Improved service practices, both in terms of the cost as well as improved service delivery, are usually available to specialists who invest in these process improvements. By outsourcing non-core activities, companies can save on training costs by not having to constantly up-skill their employees who do not get exposure in improved practices in a range of other organisations.

Use of support technology and infrastructure: Service providers that are successful in the market tend to have state-of-the-art support technology and infrastructure backing up their services. This may include user request technology support, integrated workplace systems, centralised 24/7 call-centres and other similar support facilities.

Reduction of employee overheads and entitlements: Many company’s human resource costing practices include corporate

overheads being allocated on a head-count basis. These costs may be appropriate to the core business personnel but are not necessarily relevant to employees providing other support services. This practice adds to the cost of providing the service and may include corporate (and sometimes global) overhead costs per employee, long service leave and other employee benefits. Outsourced service providers usually have far more flexible employment arrangements that are more appropriate to the service being delivered.

Change enablement: Outsourcing is an ideal opportunity to enable change. However this will only be successful if the whole process is correctly undertaken with full stakeholder engagement. Old habits take a long time to be eradicated from an organisation without a change catalyst. Outsourcing can be the mechanism to accelerate the benefits of organisational change, for example in rationalising long-term employees who no longer have the appropriate skills and are reluctant to change the status quo.

Non-performance of internal service group: If a service group is continually not performing in terms of its mandate, this may often only be solved by a new approach – this may be outsourcing. This non-performance

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is usually manifest in many forms including internal customer dissatisfaction, cost overruns, over-servicing and other inappropriate service levels.

Improved flexibility: Service contracts, provided they are structured appropriately, can provide far more flexibility to an organisation than having all resources owned and employed internally. This gives the organisation the ability to increase or decrease scale relatively quickly and cost effectively.

Although many of these objectives may lead to cost savings, this should not be the only criteria of outsourcing. If cost is all that matters, the service delivery will be commoditised and customer satisfaction will likely be compromised. A good approach to determining the key outsourcing objectives is to decide whether a process or skill is core to the business and whether it is a strategic competitive differentiator for the business.

Once the bundle of outsourcing objectives have been determined, then is the time to decide what services may be outsourced and how these services should be procured.

Rodney Timm is director of Property Beyond Pty Ltd – rodney.timm@propertybeyond.com.au

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