

OUTSOURCING FACILITIES SERVICES: THE 80:20 RULE

The 80:20 Rule is an effective time management and priority setting tool.

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You do the math — the costs of maintaining an in-house maintenance services program are escalating every day. The benefits of outsourcing sound appealing. But, how can a self-operator's concerns about a loss of control be allayed? That is a major challenge of national facilities services providers. Fortunately, technology is coming to the rescue.

The answer lies in the creation of a new hybrid approach — a combination structure to 1) keep critical components of the present in-house program and 2) outsource the balance to industry specialists. The merits quickly become visible by applying the Pareto Principle.

The Pareto Principle essentially states that 20% of your effort will produce 80% of your results. From a different angle: 20% of your results absorb 80% of your efforts and resources. One is challenged to focus on the 20% of the efforts and resources that produce the greatest returns. An executive leverages the 80:20 Rule effectively when he identifies the desired 20% and engages in activities and investments to create more of the same.

Some plausible examples include:

- Eighty percent of the company's profits come from 20% of the products sold.
- Eighty percent of new account revenues are created by 20% of the sales force.
- Eighty percent of your measurable results come from 20% of your routine activities.
- Eighty percent of your managerial challenges are fixed by 20% of your team.

DOES YOUR STORE NEED TO MAINTAIN AND OPERATE ITS OWN FACILITIES SERVICES DEPARTMENT?

"We aren't sure." would be the

response from many self-operators. There are potential benefits of outsourcing, i.e., a single point of contact, a single invoice, advanced uses of technology and the internet, state-of-the-art real time reporting, national parts procurement, etc. However, the present in-house program may meet an organizational expectation to maintain control over select program components, i.e., technician schedules, program priorities, quality control, vendor selections, accounts payable, parts specifications, communications, subcontractors' relationships.

A dilemma is created because every organization has limited resources and every facilities services department is expected to do more and to know more — but do it for less.

The changing dynamics of providing facilities services in-house vs. outsourcing suggest that an all-or-nothing choice is not necessary. Through advanced communications, the opportunity now exists to create a facilities services model that capitalizes on the greatest ROI capabilities of an outsource services provider while protecting essential in-house facilities services components.

The 80:20 Rule may apply. The cost/value relationship of an in-house vs. an outsourced services model can be evaluated and compared component-by-component. The 80:20 Rule holds that 80% of an in-house facility services department's efforts and resources support non-critical activities that do not directly impact the department's "reason to be."

The values in the cost / value relationships will be unique for every service model evaluation. The costs for maintaining a facilities services capability, however, are general and worthy of review.

Question: What are the costs for maintaining a facilities services capability?

Answer: Direct Costs + Indirect Costs (soft costs) + Opportunity Costs (what you don't know does cost you).

DIRECT COSTS

Direct costs show up on maintenance departments' general ledger accounts. These costs include:

- Labor costs to cover the maintenance technicians and supervisors, plus their benefits costs, taxes and overtime.
- Parts costs to cover non-capitalized maintenance parts and supplies.
- Depreciation of tools and other capital assets.
- Transportation costs for maintenance vehicles, their registration and their operation.
- Subcontractor costs for non-employee work performed.

National facilities services providers enjoy a number of ways to keep direct costs down:

- Labor costs are consistent with local conditions; however, advancement opportunities are available for those who deserve to earn more recognition and higher pay.
- Productivity is also a plus for national providers as they have the technology tools to evaluate employee performance, the rewards to recognize quality performances, the industry network to keep up with concept advancements and the opportunity to support and encourage innovation and creativity.
- Parts costs are lower due to national procurement programs.
- Subcontractor costs also are favorable, as outside contractors maintain high-quality workmanship at lower rates in order to have the opportunity to provide services at other facilities.

INDIRECT COSTS

Indirect costs are expenses incurred to support the facilities services capability that do not get charged to a maintenance account. These include:

- Invoice processing: the costs of administrative time.
- Insurance verification: for subcontracted services.
- Technology: computers and support for department officials.
- Management reports: preparation and reporting costs.
- Communications expenses: cell phones, walkie-talkies, landlines, pagers.
- Operations centers: the call center and dispatch function, work order management.
- Human resources: recruiting, training, evaluations and protection of department employees.
- Inventory carrying costs: the costs to finance parts in inventory and obsolete / unusable stock.

National facilities services providers include all of these costs in their pricing.

Invoice processing alone is costly. Some accounting companies charge from \$15 to \$20 per invoice processed. The clients of national facilities services providers generally have one invoice per billing period, eliminating hundreds of payments under self-operation.

OPPORTUNITY COSTS

Opportunity costs are the costs associated with being uninformed.

National facilities services provider

programs include Web-based technology that permits real-time, Web-based reporting and knowledge access. Detailed work orders are available from when the call is received until the invoice is paid; communications to/from call centers and dispatch are reviewable; reports are customizable and can be e-mailed to client PCs on a personalized schedule.

Clients of national providers have time-sensitive knowledge:

- Warranty information to capture manufacturers' and suppliers' terms.
- Repair histories by location and by equipment piece to 1) establish technician/subcontractor accountability and 2) immediately evaluate the repair / replace options.
- Experience-based capital planning for equipment replacements or re-builds.
- Management by exception capability to identify extraordinary spending trends.
- Comprehensive customized KPIs.
- Maintenance costs comparisons by account vs. budgets and previous years.
- Ongoing monitoring of preventive and predictive maintenance per specifications.
- Aggregation of subcontractor programs, i.e. landscaping, snow plowing, parking lot maintenance.

SUMMARY

The 80:20 Rule suggests that 20% of the efforts produce 80% of the favorable results. Productivity is gained as the spread from the "best" to the "worst" is

narrowed. In this age of advancing technologies and enhanced communications systems, national facilities services providers are advancing their capabilities and program solutions by growing the knowledge of their clients.

Clients specialize in industries far removed from facilities services and capital asset management. Through technology, facilities services companies now protect client assets, manage the maintenance process from start to finish, enhance client knowledge of its asset conditions, provide real-time on-site verification of services delivered and facilitate payment processing.

A hybrid approach enables a flexible program design that makes best use of a client organization's resources while allowing the national provider to assume its new responsibilities through an organized, smooth transition process.

The 80:20 Rule is an effective time management and priority setting tool. Outsourcing non-critical maintenance functions to a national facilities services provider delivers a cost-effective way to control major asset management objectives and delegate the remaining responsibilities to appropriate maintenance industry professionals. **PRSM**

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