

In-house versus Outsourcing: Facility Services

When the bottom line is critically important and margins are tight, companies look towards the many options available to achieve savings in operational efficiency and effectiveness. An ongoing debate within many industries is whether a company can save assets by incorporating outsourcing into their system of operations, and the simple answer is, yes. While any business decision ultimately boils down to the financials inherent to the decision, there are many other factors that are influential and important to consider before choosing an in-house maintenance staff or deferring to many of the subcontracting opportunities that are available.

One of the most critical factors is the level of service that will be required for maintenance, or any service for that matter. The level of service is the basic level that is expected of any service, and this should be considered even with an existing in-house maintenance staff already in operation. Within the level of service that is to be expected should be the consideration for adequate labor availability, technical expertise involved with the service, and an appropriate maintenance schedule that corresponds with budget and downtime concerns. If the level of service can be quantified and measured then the next decision to be made is whether an in-house staff would be able to maintain such a level and how much outsourcing might be involved to maintain that level. If an in-house staff could perform to the level expected, then how many employees will be required to make this manageable? An important thing to remember is that the in-house staff is your responsibility, so the measurements, estimates, and budgets are all supplied in-house as well. An outsourced company will provide all of these cost estimates as part of the bidding process which provides some up-front relief; however, it is usually necessary to get several competing bids to keep all costs relevant. If there are particular requirements that are expected of the outsourced company, then these should be directly addressed in the scope of work.

The biggest fear when approaching outsourcing is the 'lack of control' that is perceived. This is a perception held by many management professionals regarding outsourced services because the responsibility for success does not fall completely at their feet. Many leadership styles may digress from outsourcing because they are not able to control the process from start to end, and this 'lack of control' is bothersome. One way to allay that fear is to outsource based on performance record and reputation rather than cost metrics and bottom-line savings. While this may go against the idea of saving through outsourcing the old saying still applies, "You get what you pay for." In some cases savings are achieved by cutting corners and poor craftsmanship rather than through direct competition amongst contractors; this is what must be avoided. Another way to perceive outsourcing is to see things as a shared risk, because in actuality, the risk is being distributed among the relevant parties. Rather than the maintenance manager bearing the majority of the responsibility, most of the risk falls on the contracted staff to perform at the required level. If poor performance is realized, the contracted company can not only lose the opportunity for employment, but can also lose the valuable reputation that takes hard work and dedication to achieve.

Management usually turns to outsourcing after one of two things – either the in-house staff is not performing adequately resulting in inflated costs and downtime, or the operation requires a

technical capacity that cannot be achieved by the in-house staff. The first of the two is mostly a nuisance to the company and is not an area that management wants to have concerns. If the maintenance staff is operating effectively then most of the issues should revolve around budget allocation. However, the maintenance division can become difficult to manage and is usually not a core component of the business model. This is only taking available resources away from other projects that could be revenue producing. Outsourcing can improve the company focus by alleviating many of the facility concerns, allowing management to focus on the business and its efficiency. The other reason for outsourcing, or out-tasking in this case, is that the in-house staff is unable to meet the technical demands of the work to be completed. The problem with this is that many in-house staffs do not have the breadth of experience and expertise that is necessary to swiftly handle many of the issues that arise on a day-to-day basis. Many could argue that this is similar to that of an outsourced maintenance division, but there is one distinct difference – through outsourcing you are not paying a fixed asset for what they do not know. The technical knowledge is much more accessible in an open, competitive, commercial market than an in-house operation can offer.

Since much of the justification to outsource comes down to the financial ramifications – it is important that we consider the Pareto Principle in our analysis. The Pareto Principle, or the 80/20 rule, applies in the sense that 80% of the work is completed by 20% of the team, or that 20% of the efforts produce 80% of the results. The leftover can be evaluated as employee downtime. Outsourcing provides greater flexibility in staffing levels which may lead to lower labor costs and a lower investment risk. Outsourced contracts provide the labor and equipment that is necessary to complete the job and often result in a lean, focused workforce. An efficiently run outsourced group will limit the on-site workers to the amount that is necessary to completely satisfy the contract, thusly eliminating much of the employee downtime and inefficiencies that are realized in an in-house arrangement. This has a direct effect on the bottom-line savings of a division.

The largest reason for a company to employ an in-house maintenance staff is actually the ability to account for fixed assets and maintain a tighter control on the budgeting of the division. Accounting divisions love fixed assets because there is no judgment of volume or inflation of costs, and with an in-house division variable costs are limited. However one can argue that any well-run maintenance division has an annual budget in place that incorporates all the costs that are expected along with funding for upcoming projects. In a budgeted scenario – the fixed salaries of the maintenance staff are removed from the budgeted amount and the leftover would be for projects and contracting opportunities. The ratio for fixed salary to budgeted amount is higher and therefore leaves less room to experience savings. In an outsourced situation, the on-site staff would be limited so the fixed costs would be less in comparison to the in-house staff. The amount budgeted would stay the same so there is greater flexibility and more opportunities to achieve savings.

There are many facility management contractors available, and so it is important that the management group that is chosen suits the needs of the property. Local, or regional, facility management groups are generally more accessible than a national firm. These localized management groups have a better feel for contractors in the area and might sway from national name brand maintenance divisions to achieve savings. The employees that work for these groups are generally more

experienced in a wide-range of trades, retaining skills that are suited for many tasks. National, or international, management groups offer services – financing, property procurement, turnkey packages, and more – that localized groups may not afford. National facility management corporations will work with other national maintenance firms that can operate on properties anywhere across the country. These groups will employ technicians with a more focused, specialized set of skills. Both local and national firms have certain qualities that may be more suited for certain applications, but quality and response times will vary with all companies.

Outsourcing, or at least out-tasking specific functions, is certainly viable for many companies. However, there are a multitude of variables that have an impact on the effectiveness of either situation, so it is imperative that a company weigh its options carefully to come up with a solution that best fits their needs. More importantly, companies need to reach out to the facility management professionals that are available in order to make an educated decision. Too often we assume that bottom line savings are being achieved and do not take the time to explore any other possibilities, but the management and maintenance of operational facilities are crucial to the longevity of an organization and should not be overlooked.