

Improving the Way You Manage Facilities

Success or Failure Depends on Effective FM Contract Transition Management

Teena Shouse, CFM, IFMA Fellow

July 8, 2015

12701 Fair Lakes Circle
Suite 101
Fairfax, Virginia 22033
703.591.4855 tel.
703.591.4857 fax
www.feapc.com

About the Author

Teena Shouse, CFM, IFMA Fellow is Vice President of Corporate Services at FEA. She has over 26 years of experience in service related fields, predominately in Facility Management. Her primary expertise includes; project management, business process improvement, sustainability in FM, staff development, outsourced contract governance, capital planning and budgeting, and operations and maintenance. Teena creates and teaches Facility Management and Sustainability courses for IFMA and FEA and is a guest speaker at numerous North America and International conferences and universities. From 2005-2007, she served as the Chairman of the IFMA Board of Directors. From October 2010 to January 2013 she held the position of Chair of the Global FM Board of Directors, a global federation of FM organizations based in Brussels, Belgium. This has enabled her to influence the facility management profession on a global basis. Specifically, her work with FEA enables the organization to deliver creative business solutions within FM advanced services, assist clients in resolving their FM challenges, and continuous advancement of its programs and personnel





Forward

This paper is intended to inform and motivate the readers to re-think the way they look at the contracting process. Most importantly, to look at the process of contract management holistically from the needs analysis of changing a substantial contract to a successful transition from one supplier to another. It is also intended to be as relevant for the client or contract owner as it is for the contracted partner supplying important facility management related services.

Executive Summary

Some senior real estate executives have reported that outsourcing will continue to increase at a steady rate, therefore, the amount of service provider changes and transactions will continue to increase at an accelerated rate. The predicted increase in outsourcing will make it even more important to have sound business transition processes in place. With a large percentage of your FM budget locked into a (or multiple) service contract(s) it is critical to get the contracts running properly from the start, which is dependent on a smooth transition. And a smooth transition is dependent on having a good transition plan.

Introduction

- So what is involved in or meant by Facility Management Contract Transition Management (CTM)?
- Why do some service contract transitions fail?
- What are the CTM stages you should follow?
- Who should drive the CTM effort?
- Standard transition approaches versus innovative options
- What are the risks of not adopting a successful CTM plan?
- What are the advantages of Third Party involvement?
- Contract transition avoidance (Re-bid situations)



Success or Failure Depends on Effective FM Contract Transition Management

So what is involved in or meant by Facility Management Contract Transition Management (CTM)?

CTM is the plan for transitioning from one model of FM service delivery to another. This document is a “CTM How to Guide” to provide an explanation of the different activities, stages, and timing considerations which are part of the transition process. CTM should be considered whether you are a facility manager (owner), service provider or a third-party consultant aiding in the transition process.

CTM planning and execution can help ensure a smooth, well-executed and beneficial transition. Having a transition plan is so important because changing from one service provider to another, and/or transitioning from internally-provided services to an outsourced contract can be an overwhelming due to the number of details, the expense and sometimes emotional process. Unfortunately, many transitions fail leaving the owner and facility manager in a less than desirable relationship for years. On the other hand, a service provider can discover that they have committed to a contract that could cause damage for them both financially and could possibly damage their professional reputation.

A comprehensive CTM plan should address the three pillars on which all organizations rest:

- Infrastructure and Technology (e.g. CMMS/IWMS),
- Processes (e.g. evaluation and monitoring, communication, collaboration)
- People (e.g., change management, clarification of roles and responsibilities)

Why do some service contract transitions fail?

Most of the time failure occurs because both parties did not do the necessary due diligence and just hoped for the best! In the end there is finger pointing; “It had to be the procurement department’s fault” or “THOSE people just did not understand our real objectives” or worse yet, “They were just not a good service provider!” When in reality it was perhaps just a combination of several things including; lack of coordination between procurement and the business unit, weak program scope, lack of due diligence in understanding full client expectations, etc.

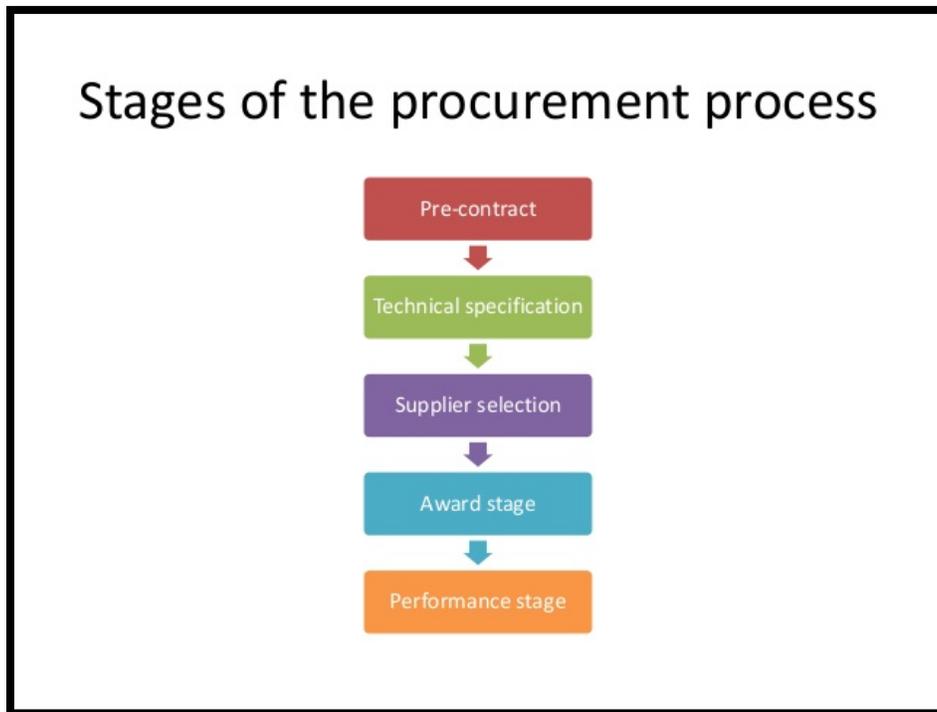
A successful transition takes time. Not allowing the proper time is another key reason that transitions can be bumpy or cause very rough waters. The actual time differs by the complexity of the contract and affected facilities, and the number of services involved. It is my opinion that for even the very simple conversions to be successful at least 4-5 months are needed. Successful transitions also take money. I once was involved in a CTM project where the estimates for transition costs ranged from \$10K for a transition period of 30 days to \$300k for 6 months. It is

essential to have clear transition expectations, the time and the funding necessary to achieve those expectations.

Finally a successful transition requires a well-developed risk management plan. Identifying the potential issues, the likelihood that the unwanted events may occur and the effects it will have on the transition process allows everyone to be prepared. A classic risk, particularly in government contracts, is a bid protest which will delay the award of the new contract. Recognizing this is a possibility and planning for the additional time it will add to the process is key to a smooth transition.

CTM Stages

Successful CTM requires careful forethought, planning and a systematic approach to managing the transition, the risks, and the change. The management of the transition project should begin well in advance of the request for proposal (RFP) process and continue through the solicitation process, contract development, the actual transition period (do not under estimate how long this will take!), and for a short duration after the new services have begun (60-90 days). This will ensure the plan is on target and commitments are being met. It allows for a chance for course correction before any real damage occurs.



Pre-contract

Beginning with the end in mind during the pre-RFP release contract development stage, the transition requirements should be created and clearly delineated in the RFP language. The transition language starts with understanding the needs of the customer; translating those needs into requirements; and then developing specifications aligned with the requirements to be included in the RFP. I recommend that sufficient information about the facilities be provided in the RFP to allow bidders to make consistent and accurate assumptions about the types, condition and quantity of asset items to be covered by the service contract. This also allows a more direct comparison of bids and the equipment conditions are accurately allowed for and represented.

At this stage of the game, it is also imperative that the client declare their expectations regarding expected service levels. Additionally, this is the stage when both management metrics and Key Performance Indicators (KPIs) should be determined to allow the bidders to fully understand how their performance will be measured. In the actual transition stage, the KPIs will help in the development of an effective operational plan. Some examples of typical KPIs include: operating budget to actual performance variance, preventive maintenance (PM) compliance, response time compliance, preventive to corrective (PM/CM) maintenance ratio), rework requests, unit cost by square foot, and customer satisfaction metrics. Often a balanced scorecard of management metrics and KPIs linked to the organization’s strategy leads to successful long-term performance.

| Perspective | Metric | KPI | Management Metric | Important | Not Important |
|-------------|---|-----|-------------------|-----------|---------------|
| Customer | Rework | | | | ✓ |
| Customer | Top 10 problem codes | ✓ | | ✓ | |
| Customer | Customer Satisfaction | ✓ | | ✓ | |
| Process | Work order type distribution | ✓ | | ✓ | |
| Process | Work Order Aging by type | ✓ | | ✓ | |
| Process | PM:CM Ratio | ✓ | | ✓ | |
| Process | WOs Initiated by Staff as Result of Inspections/RCM | ✓ | | ✓ | |

| | | | | | |
|------------------------------|---|---|---|---|--|
| Process | PM Schedule Completion Rate | ✓ | | ✓ | |
| Process | Budget vs. Actual hours to complete | | ✓ | | |
| Process | Total requests by trade/shop/group | | ✓ | | |
| Process | Utility Costs per GSF | ✓ | | | |
| Process | Annual % of Water Consumption Reduction | | ✓ | | |
| Process | % Waste Diversion | ✓ | | | |
| Learning & Growth | Number of Training Hours (by person) | ✓ | | | |
| Learning & Growth | % Employees meeting training hours required | ✓ | | | |
| Finance | Operation Budget as % of CRV | ✓ | | | |
| Finance | Maintenance Costs per GSF (threshold = \$5K?) | ✓ | | | |

Technical specification

The pre-transition strategy should include verification and sharing of the accuracy of the facilities data, asset inventory, and physical condition of the assets by both the existing and new service provider. Much of this data should reside in the computerized maintenance management system (CMMS) or integrated workplace management system (IWMS). It is best to conduct these quality assurance verifications far enough in advance of the existing service provider's contract expiration that corrections may be made, but not so far in advance that the observed conditions change due to subsequent service activity. This information will also benefit both the new service provider in better understanding their projected investments of labor requirements and financial exposure. The statement of work should be sufficient to ensure the perspective bidders have all they need to create a complete and realistic proposal.



Supplier Selection

Working in concert with your procurement department is absolutely critical in this phase. The facility manager knows what they need for a successful operation and has taken the necessary time to write a great scope but it must be clearly translated to the procurement personnel to enable a successful RFP process. There are a myriad of evaluation factors to consider and be prioritized and these must be agreed upon by all parties of the contracting team at the very beginning of the process.

Award Stage

- Create a phase-out plan; listing all the required activities, who is responsible for the activities and an associated schedule with activity dates.
- Create a risk-management plan.
- Conduct an initial contract phase-out coordination meeting six months prior to the end of the current contract and have subsequent status meetings on a bi-monthly or monthly basis.
- Create a communications plan. A communications plan should include required notifications and coordination. For example occupants (customers) will need to be notified about the change in service providers and the fact that they may see an increase in service provider activity during the transition. Another example is security. If your organization requires security badges and perhaps background checks before those badges can be issued coordination with the security department with respect to the oncoming new contractor is critical and should be part of the communications plan.

This is also a good time to remind occupants of the frequency schedule of services (e.g. trash and recycling pick up, bathroom cleaning, and mowing) included in the new contract.

Who should drive this effort?

The facility manager should drive the CTM process and therefore should be the head of the CTM Team. The facility manager should work in concert with the procurement group. The facility manager may be required to explain to the procurement group that facility service contracts are very different than purchasing contracts and therefore the purchasing techniques will be different. They may need to educate the procurement group that techniques such as Reverse Auctions and such other types of purchasing practices are not good contracting processes for FM services as they are not buying widgets. It should be a goal of the CTM team to create a strong partnership with all team members. This contracted service could have very expensive impacts on the company's



greatest two assets; their people and their properties. I once took our procurement liaison to IFMA's World Workplace so they could touch and feel real FM and all of the moving parts within the industry. It was very successful and allowed them to be a real partner going forward.

Performance Stage

Standard Transition Approaches

Transition approaches vary as much as the companies who procure and provide them. There are no national or international norms when it comes to this process. There are current ISO FM guidance standards under development that will address common global approaches to strategic sourcing and FM agreements.(1) My contention is that we should take the best of the current practices and create a model that could be most effective. To build on a base of process, let's review a very short synopsis of a government example, however the process is transferable to the private sector as well.

- **Contract Transition Planning**
Address the plan for transitioning from an existing service provider to a new service provider and/or contract type and the plan for ensuring that government furnished items, property, or information is accounted for (The existing service provider is responsible for reconciling discrepancies.). Include transition strategies, schedules and identify the individuals responsible for facilitating a smooth transition.
- **Method for Monitoring Objectives**
Describe the methods for monitoring and evaluating the performance-based objectives. The Quality Assurance Surveillance Plan (QASP) addresses the methods for monitoring performance against the contract. This section should address service provider oversight (e.g. field inspections, monthly assessment of project status, contract administration, deliverable reports, budgetary data, physical inspections, etc.). Also, identify the roles and responsibilities of the individuals involved in monitoring and evaluating the performance-based objectives.
- **Inspection and Acceptance Process**
Discuss the strategy for ensuring contract requirements conform to quality assurance provisions and address the roles and responsibilities of the individuals involved in this process. Also, reference the sections in the contract that addresses inspection and acceptance.
- **Invoice Review**
Discuss the plan or process (e.g. instructions, certifications, documentation, etc.) for reviewing and approving invoices; and reference the invoice requirements addressed in the



contract. Also, discuss the roles and responsibilities of those individuals that have direct involvement in the process.

- **Agreements with State, Community, or Other Entities including sub-service providers**
This section should address any partnering agreements (e.g. Resource Conservation and Recovery Act Permit, Clean Air Act Air Operating Permit, State Environmental Policy Act, etc.) with the state, community, or other entities the service provider must comply with in meeting the requirements of the contract. This section should also identify the parties responsible for fostering these agreements. This also includes full disclosure of any sub-contracts which will also need to transition under the new agreement. Communication with them as the expectations of the clients will be imperative and the responsibility of the lead project manager of the main contract.

While the government can have very specific requirements, their basic approach is very solid. Other items to ensure are included are; Sample of Deliverable Matrix, Detailed Transition Plan, and a Risk Mitigation Plan.

Are there any technologies to assist in the CTM?

Complete and accurate data from a CMMS or IWMS program is extremely helpful, almost imperative, when transitioning from one provider to the next. If the facility manager knows exactly what equipment they have and the condition of that equipment it will affect the pricing proposed by the service provider and give them a great foundation to start from regarding setting up their O&M plan. It is important to discuss the ownership of data, data standards, system configuration to enable data analytics and KPI dashboards, and access to either owner-provided or service provider-provided systems.

What are the risks of not adopting a successful CTM plan?

Repeating past mistakes, not ensuring a strong win/win contract for both the outsourced services provider and client, productivity issues for the clients customers on the affected sites, damage to the equipment due to lack of maintenance, the list goes on and on.....

The transition period between service providers can be a period of great disruption which can create a period of financial risk for all parties and this is where facility management consulting expertise may be able to minimize the disruption/minimize risk. The goal should be a commitment by the existing service provider to transfer well-maintained equipment and operational data to the new service provider while eliminating operational impact to the facility occupants. This is not always the case and therefore sometimes 3rd party consulting services involvement aligned with the CTM Team can be a support to all involved parties.



Like a good marriage counselor asks “Do you realize the commitment you have made? How this will change your world?” Not taking the time to ask the right questions and build a good relationship can create a house of cards on a weak foundation.

What needs to be communicated to whom, when, and how?

The most vulnerable aspect of the transition is the “people” aspect. Lack of understanding, poor follow through, resistance to change, lack of buy-in, and insufficient training can derail even the most comprehensive set of processes. A carefully thought-out and intentionally implemented Change Management Engagement Process is the responsible approach to mitigating potential service interruptions related to the transition.

The “people” aspect of the CTM occurs in conjunction with the stages of the procurement process mentioned above. Successful transitions intentionally incorporate the “people” process (or Change Management Engagement Process) into the overall Contract Transition Management. Intentional incorporation means that the various stakeholders (Procurement, HR, C-Suite, FM Team, and possibly others) are effectively engaged through agreed upon communication processes; mechanisms for internal discussion, debate, and ongoing feedback; and receive the support they need to roll out the CTM plan to staff, clients, and others.

It is important to keep in mind that while change might have a clear starting point, the end point is often vague and gradual. Therefore it is important that managers continue to have access to needed supports even after the contract change has been implemented.

The more the transparent the process, the better. The Procurement, HR, the C-Suite and the FM Team must work as a finely tuned machine with total transparency to the process and the legal requirements to protect the company procuring the services. The desired outcomes must be clearly understood by all. This is also where change management and great communication to the affected employees who work within the affected properties comes into play. Especially if service levels will change and this will cause a cultural shift which should be monitored and well-communicated at all levels within the organization.

The transition plan should also include how future communication will take place, including: frequency, media, and breadth of distribution. As an example, will communication be via internal versus external party reviews; will you utilize full Quarterly Business Reviews (QBR), dashboard reporting through a CMMS program, etc.

This is also a good time to set forward the first year milestones based on new contract which will include specific projects, metrics reporting, and promised deliverables perhaps in the form of a Balanced Scorecard. Discuss conformity to the contract specs, agreed service levels and further define/clarify the role and responsibilities of each party, the client and the service partner.



Third Party Involvement

It can be helpful (and necessary) to engage a third party team/consultant to assist with the transition. The transition process, because of its complexity and importance, requires dedication and focus. It can be problematic to assign transition responsibilities as “co-lateral duties”. Here is an example of some of the tasks required for a smooth transition that can easily be assigned to a consultant:

1. Evaluation of the CMMS data for completeness, accuracy, and suitability for transfer to the new service provider via a desk audit.
2. Performing a field study to compare the accuracy of the CMMD data against the actual assets.
3. Evaluation of current asset conditions to minimize potential impact to operations and reduce the number of “differing conditions” the new service provider will encounter during start up.
4. Creation of a CMT plan including a detailed contract transition checklist, transition schedule, risk management plan, and communications plan.
5. Analysis of outstanding invoices and open work orders that may span the contract transition due to magnitude, operational factors, and/or material availability.
6. Act as the transition “communicator” to ensure each party is fully aware of the expectations for the new contract.

Contract transition avoidance (Re-bid situations):

One of the primary reasons why incumbents lose their rebid is not the pricing or about the content in the new proposal, it is about the past performance and communication with the clients that occurred through-out their current contract. Many times the value statement and progress from the original baseline performance level has not been clearly communicated throughout the life of the current contract. Plans to prevent future losses or expenditures (if such plans are thought of) usually focus on better delivery of services and pricing for the rebid period.

The issue is that the contractors rarely focus on improvements that have been documented throughout the past life of the contract, which affected the entire portfolio and the tenants/clients. If the service provider has “muddled along” and not been responsive to the changing needs of the organization, the level of dissatisfaction could be insurmountable. If the service provider has failed to continuously improve and deliver innovation, the client will not have faith in the credibility of them doing it better the next time.

Solution: If a good monitoring program has been utilized throughout the contract period, the service provider can confirm to the client and the services service provider management that solid improvements affecting not only the bottom-line but the people involved has been accomplished. This could be a key factor in a successful contract extension with or without a re-bid situation.

This type of planning and execution can avoid what I call “Outsource contract chess play – *I’ll take your pawn but lose my knight, but next time I will get your queen.*”

The best way to avoid contract churn is to begin on the right foot. Embed yourself better in process to ensure future success. Most incumbents lose contracts primarily on past performance and poor communication and less on price. It boils down to the value statement and needs to be communicated throughout entire life of the contract. It is one thing to create a plan about the future, but the real issue is to document the improvements and fulfillment of the value proposition. Has the service provider partner lived up to value proposition or enhanced it?

Summary/Conclusion

Bottom-line, there is not a magic potion – both the facility manager/owner and the service provider organizations need to work together just like any other good relationship. This begins with setting realistic, well defined goals, creating a strong communication plan, diligent follow-through by all parties, following the process steps, and committing to making it work from the beginning. This will happen if it is built on a strong foundation.

References

1. ISO 18480-2 Facility Management: Strategic Sourcing and Agreements (currently in a draft international standard stage within ISO TC/267).