



BEST PRACTICES IN
**FACILITIES
MANAGEMENT:**
AN ADC & JLL ROUNDTABLE

INTRODUCTION

With the need to streamline the management of its installations while it addresses aging infrastructure, severe budget constraints and evolving weapons systems and missions, the Defense Department has been refining its vision for “the base of the future.” Other trends are prompting DOD to contemplate new ways for supporting its installations as well, including a shift in demand for services due to service members’ changing demographic profile and the emergence of more efficient service providers. Many on-base services the military now provides can be carried out more efficiently by the private sector or local governments. Beyond a greater reliance on public-public and public-private partnerships, a move toward a performance-based approach to contracting for facility management has the potential to improve the quality of installations services at a lower cost.

In recent years, the outsourcing of facilities management (FM) has grown rapidly in the private sector, and the global market is expected to grow at an annual rate of 6.4 percent to nearly \$100 billion by 2019. If well executed, outsourced FM can drive significant cost savings, uncover efficiencies and support the creation of a partnership between the client and servicer which incentivizes performance.

While DOD outsources FM, it is unlikely many of the latest industry best practices are being applied. DOD has an excellent opportunity to apply new approaches used in the private sector to drive efficiencies, reduce costs and focus on its core missions.

At the 2017 Defense Communities National Summit in Washington, D.C., ADC and JLL hosted a roundtable discussion on how private sector best practices in procurement and FM could be applied at DOD installations. This paper provides a summary of the opportunities and challenges discussed.

Generating Cost Savings and Efficiencies through Performance-Based Outsourcing

For both public and private sector entities, the primary driver of FM outsourcing is to generate cost savings through reduced operating expenses and improved processes. Top FM service providers have successfully reduced total operating expenses from 5 to 30 percent through efficiencies in energy management, workflow management, supply chain management and workforce administration. These cost savings translate directly to a more effective use of resources, a better work atmosphere for employees and increased focus on the agencies’ core missions. In an increasingly competitive and resource-constrained environment, FM outsourcing is a very powerful tool.

The primary way the FM industry achieves these efficiencies is through a best practice known as performance-based outsourcing. In this arrangement, contracts and incentives focus on agreed-upon outcomes rather than on prescriptive tasks. For example, a performance-based contract would simply define the standards for facility cleanliness, versus stipulating the frequency of cleaning for each area. The focus on cleanliness standards allows the service provider to design a customized strategy that adjusts service levels for high- and low-traffic areas, allowing for the most efficient use of manpower and resources.

Key Performance Indicators Assess Effectiveness and Provide a Baseline for Performance Incentives

Another critical component of performance-based outsourcing is the use of key performance indicators (KPIs) to judge effectiveness and to provide a mechanism for establishing performance incentives. In performance-based contracts, service fees are typically divided into base and incentive

portions, similar to the approach used in many of the contracts between developers of privatized housing on military installations and their facility managers. If performance targets are not met, the FM service provider's fees are typically reduced in defined increments that correspond to the size of the performance gap. Conversely, if performance targets are exceeded, the service provider has an opportunity to exceed its base or incentive fee, or share in the percentage of the financial benefit created. Additionally, shared savings incentives may be based on the contractor's ability to reduce actual costs below the contracted amount subject to meeting the KPIs. This best practice requires the military service to clearly understand what they have spent on FM during the preceding years to establish an accurate benchmark for determining savings. Fortunately, each service tracks costs and cost codes very accurately and with a great deal of precision.

Overall, this enhanced model gives service providers the flexibility to develop customized execution strategies. In addition, it provides financial incentives for achieving mutually defined performance targets to align the interests of the client and service provider and create an environment for continued innovation. Many organizations also find this structure helps create a partnership with the service provider rather than the buy/sell dynamic of the traditional supplier-client relationship.

Challenges of Current DOD Procurement Process

The current DOD procurement methodology for FM services utilizes a more traditional request for proposal (RFP) process that is highly prescriptive in tasks and manpower requirements. In contrast, performance-based outsourcing specifies the "what" but not the "how." A drawback of the traditional RFP approach is that it ignores the expertise the FM industry can bring to bear. Also, it relies upon the RFP writers to translate desired outcomes into requirements prescribed in the solicitation.

The traditional contracts FM service providers bid on contain no meaningful mechanism for measuring and rewarding performance and do not provide

financial incentives to exceed requirements. As a result, price becomes the driving factor and service providers effectively compete to provide the minimal acceptable service level at the lowest possible cost. This price-driven approach virtually assures that FM service providers will neither drive innovation for DOD nor introduce long-term performance improvement strategies.

DOD's adoption of procurement best practices that encompass performance-based requirements, clearly defined KPIs and incentives that align the objectives of all parties represents a significant opportunity to drive cost savings and efficiency. In addition to the private sector corporations using performance-based contracting, public sector organizations are increasingly adopting this model with great success. Notably, the state of Tennessee and the University of California are transforming their FM procurement processes to adopt this model and have been able to generate significant cost savings and efficiencies.

Beyond the discussion of performance-based contracting, one of the challenges all agencies face is the issue of using cost as the sole determining factor for awarding a contract. One reason is that procurement offices are very concerned with protests by unsuccessful offerors, with contested awards presenting a considerable challenge. Even if the solicitation is written as a "best value" procurement, contracting officials are effectively forced to rely on price to avoid a protracted contract protest — unless the agency can separate proposals on the basis of their technical merits.

Oral Interviews Help to Provide the Complete Picture

One technique employed by many universities, states, DOD for its housing privatization procurements and the private sector to distinguish between offerors is to conduct oral interviews based on the written submissions. Oral interviews offset the ability of a talented proposal writer to make almost any firm look good on paper. As a result, procurement teams often are hard-pressed to distinguish differences among candidates based on their written proposals.

Including oral interviews as well as visits to past-performance clients will provide a more complete picture that can either corroborate or raise questions about the glowing write-ups submitted by offerors. For that reason, oral interviews are routinely used by organizations incorporating a more strategic, performance-based approach in their procurements.

Interviews can be invaluable for assessing a provider's true capabilities, experience and strategic ideas, and they provide a mechanism for clearly separating the technical proposals of the various candidates. Additionally, as more organizations view their FM outsourcing agreements as partnerships rather than as traditional, transaction-based contracts, oral interviews offer the added advantage of providing an early assessment of the future working relationship with a provider.

Use of Technology

Use of technology is a common thread in highly effective FM operations today. Modern technology can enhance many aspects of facility operations, including workflow and reporting, proactive identification and resolution of potential equipment failures, and development of space utilization strategies. Whether incorporating new technology or enhancing and integrating legacy systems, public sector organizations should expect their FM service providers to take advantage of the latest technology to introduce new ways to get the job done.

And while public sector agencies are often concerned that enhanced technology can create cybersecurity risks, an experienced FM partner can be expected to provide a number of solutions to completely mitigate these risks. Mitigation strategies include on-premise hosting by the agency or a qualified entity on its own secure servers to retain 100 percent control of system

security; and hosting in a contained network, shared between organizations, that provides cloud-like functionality — such as web-based automatic updates — within a defined network in which a parent entity controls system security.

The key point is that organizations with advanced requirements for cybersecurity have multiple options for achieving their desired level of security, and the issue should not be an obstacle to adopting technologies that will improve an organization's operational effectiveness and support its mission. A look at private sector organizations with similar requirements, such as banks and large life science firms, could yield some useful insights into mitigation strategies available with current technologies.

Moving Up the Client-Provider Continuum

Both public and private sector organizations are increasingly adopting a performance-based model for FM outsourcing. As a result, their leaders have been able to move up the client-provider continuum from task-oriented servicing to a true partnership that provides long-term value and cost savings. Due to the large number of military facilities around the world, the military has a significant opportunity to realize similar improvements in the efficiency, cost and sustainability of its facilities. To realize the full benefit of the performance-based model, however, DOD will need to transition from its current procurement methodology to a high-touch selection process and evaluate strategies for secure implementation of the latest FM technologies. Use of the performance-based model will ensure the most efficient use of the scarce resources available to the military services and the reallocation of savings to more critical mission requirements.



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