FM comes of age

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FM comes of age

Facilities management is a massive industry. In Europe's five largest economies, the potential market accounts for almost 5% of GDP. Cost reduction has always been at the heart of the profession but in fact it is in a prime position to add real value to corporations, as **Professor Per Anker Jensen** explains.

Facilities Management (FM) is one of the fastest growing professions and markets in Europe. Being a relative new field it is difficult to give exact measures of the size but FM includes in-house functions in most corporations as well as a large number of provider companies of every possible size.

There have been a number of studies made of the market for FM in different European countries and also a few covering all of Europe. One of the most recent was based on a German PhD study and it is interesting because it is based on a single model of the FM market applied to 41 European countries. This includes all 27 EU countries as well as countries such as Turkey, Switzerland and Norway.

The study took the Gross Domestic Product (GDP) in the countries as a starting point together with an estimation of FM's share of GDP in the five largest countries, the UK, Germany, France, Italy and Spain. In these top five countries the actual FM market represented 2.5%, and the potential market represented 4.9 % of GDP.

The actual market is outsourced to providers, while the potential market also includes the in-house FM provisions in the customer corporations. The degree of outsourcing and growth rates were estimated for each country based on expert interviews. The model divides the countries into four market types:

Pioneer markets

- The UK
- The Netherlands

Developed markets

- Central European countries
- Denmark
- Italy
- Spain

Emerging markets

- Norway
- Sweden
- Finland
- Poland
- Czech Republic
- Hungary

Table 1: Degree of outsourcing and growth rates for FM markets types in Europe		
Market type	**Degree of outsourcing**	**Growth rate**
Pioneer markets	56.3 %	6.0 %
Developed markets	43.6 %	8.0 %
Emerging markets	32.5 %	12.3 %
Pre-emerging markets	17.5 %	21.5%

Source: Euro FM

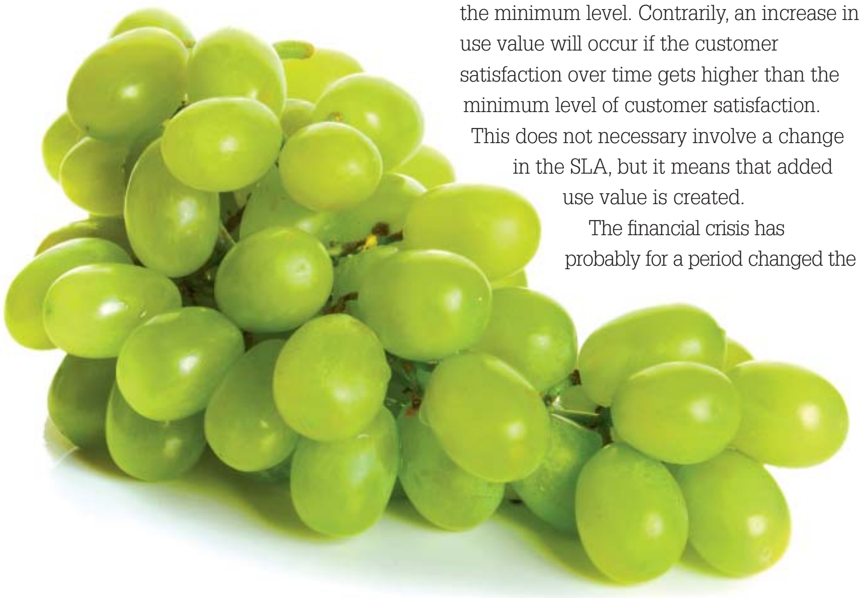
Pre-emerging markets

- Mostly South Eastern Europe and other East European countries

The study showed that the volume of the potential market in the 41 countries in 2008 was approximately €655 billion, with €331 billion apportioned to internal services and €324 billion to external services. This means that the degree of outsourcing in general was 49%, but this varied from 17.5% to 56.3% between the different market types.

The top five countries represented 64% of the market. The growth rate varied between 6.0% in the pioneer markets and 21.5% in the pre-emerging markets. Table 1 (above) shows the average degree of outsourcing and growth rates in the four market types.

A study of the Nordic FM market by CapGemini Norway from 2004 showed that the Swedish market was the most developed market, while the German study shows that the Danish market is the most developed in the Nordic countries. These differences indicate that such market surveys should be treated with caution.



Cost reduction or added value?

In an investigation of 36 cases of best practice in FM from the Nordic countries, that I have been in charge of, we concluded that there has been a change in recent years from mostly focusing on cost reduction towards a need to also focus on adding value. This conclusion was evident both for in-house FM organizations and external FM providers.

The trend towards outsourcing has been very strong within FM over the last 15 years, which explains the large and fast-growing market. The opportunity to reduce cost has been a dominating driver behind this trend.

The difference between adding use value and cost reduction is illustrated in Figure 1 (right). It shows the relative development over time of cost and use value of a service compared to a baseline with use value as specified in a Service Level Agreement. The use value of the service can be measured by a Key Performance Indicator (KPI) with a minimum level of customer satisfaction.

A cost reduction occurs if the cost/price of the service over time goes down without lowering the customer satisfaction below the minimum level. Contrarily, an increase in use value will occur if the customer satisfaction over time gets higher than the minimum level of customer satisfaction. This does not necessary involve a change in the SLA, but it means that added use value is created.

The financial crisis has probably for a period changed the focus back to again being mostly on cost reductions. However, there is for me no doubt that the FM profession and industry need to increase their competencies towards adding value. It is a necessity, if we want to become a more important industry, capable of getting attention from top managers and attracting demanding youngsters.

Knowledge and skills required

This change has some important impacts on the knowledge and competencies needed for FM. To reduce cost we can use past experiences and similar management tools and methods like outsourcing, benchmarking and process development as many other management fields do.

To add value we need to develop new knowledge and competences specific to our field. Research and development will become more important. So far the FM providers have been able to expand into new market areas without being forced to innovate. This situation will change when the market becomes more mature and saturated.

Models for added value

There have been quite a lot of efforts to develop models and methods to investigate and measure the added value of real estate and FM. Corporate Real Estate Management (CREM) is a field closely related to FM, where there have been several suggestions for models to investigate added value.

A seminal work at CREM was published by Joroff in 1993 in the US introducing the concept of the fifth resource, proposing that real estate is a corporate resource in line with capital, human resources, technology and knowledge, which had been more or less neglected so far and needs to be managed in a more professional way.

One of the models in the field of CREM was developed by Lindholm in 2008 in Finland as part of a PhD study including investigation of case studies in several European countries and the US. It is based on strategic mapping (Kaplan & Norton, 2001) from Balanced Scorecard methodology and identifies seven different real estate strategies that can increase revenue and/or productivity and thereby lead to shareholder wealth.

In the Netherlands there have been a number of attempts to develop such models and the most recent one was developed by

De Vries *et al* in 2007, also based on a PhD study. The concept of real estate as the fifth resource is included is this model, which is based on input-process-output. A main difference to the Finnish model is the inclusion of multiple stakeholders and not only shareholders.

A third model was developed from research in the field of FM by me as an outcome of the study mentioned above of 36 cases from the Nordic countries in Europe and discussion in a work group with practitioners in the NordicFM network. It is called the FM Value Map. Like the Finnish model, it is developed by inspiration from strategic mapping in Balanced Scorecard methodology. It includes input-process-output like the model from the Netherlands, but with a separation between FM and core business, which is crucial in FM theory. It distinguishes between the impacts of FM on the core business and on the surroundings. Like the Dutch model it operates with multiple stakeholders.

A comparison shows that quite different parameters have been used in the three models. However, a closer analysis reveals that all the parameters can be grouped in the following three main categories related to impacts on core business:

- People
- Processes
- Economy

The exception is that only the FM Value Map includes a category for impacts on the surroundings.

Measurements of added value in corporations

Within the field of marketing Heskett et al. (1994) have presented an equation to measure customer value:

Customer value =
Results produced for the customer + service process quality

Price to the customer + cost and effort in acquiring the service

With inspiration from this customer value equation the Danish financial corporation Nykredit, has defined a so-called user value ratio:

User value =
Quality & Process / Price & Difficulties.

The user value ratio was introduced to supplement the cost related factors in the internal decision making process to force the decision makers to take a broader value-oriented perspective. It was not developed into a quantifiable tool, although the manager who introduced it did have intentions to do so. It was used as a situation specific, qualitative tool to assist decision making.

An example of a company that has gone further to quantify measurements of added value is the Denmark-based LEGO corporation, where the FM organisation has found a specific way to quantify its contribution to the core business as value add. The LEGO Service Centre has value creation as one of five strategic focus areas, the other being customers, processes, innovation, and employees, and uses Balanced Scorecard as a management tool.

LEGO has stated that their key objective is to deliver a minimum of 5% value add every year. To measure this, they have defined the following value equation:

Value add =
Volume * quality * flexibility/cost.

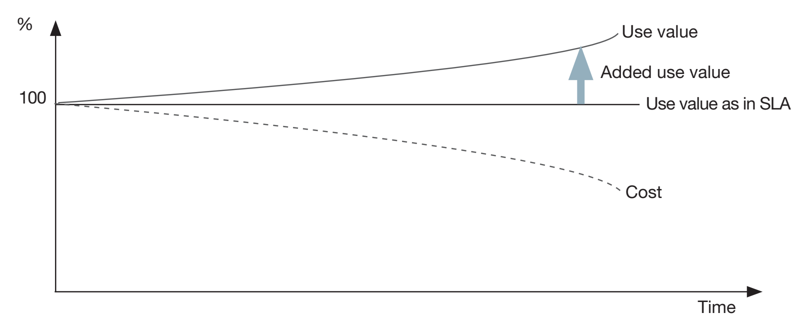
Volume represents the level of scalability and is calculated as the number of standard services (part of the service catalogue) delivered. Quality is the user perceived quality measured by use of surveys among randomly selected users. Flexibility concerns the number of non-standardised services delivered. Cost covers the total company cost of providing services.

Strategic importance

FM has become an important industry and profession, which is responsible for approximately 5% of GDP in the most developed countries. Outsourcing and cost reduction have been and still are important trends within FM but in recent years they has been combined with a new trend for adding value to corporations and increasingly also to society at large as sustainability and corporate social responsibility becomes a key concern for both public and private corporations.

This change in focus is evident not only in the field of research but also as a practical reality in corporations. There are even examples of corporations where the FM organisations are developing qualitative and quantitative measures to document how and how much they add value. This shows that the most forward-looking facilities managers are beginning to talk the language of top management and want to be taken serious at strategic levels in their corporations. ■

Figure 1: Added use value and cost reductions



Source: Euro FM

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