Extending the honeymoon period

Five recommendations to help create a successful transition to real estate and facilities management outsourcing
The importance of governance

KPMG advocates the importance of governance and management in the success of any outsourcing effort. The management of outsourcing begins with transition.

The transition phase represents the start of the governance efforts and the time when outsourcing and its objectives are beginning to be realized. Transition is, in that sense, a real “moment of truth.” When the service provider selection is complete, the negotiations finished and the contract executed, there is a sense that “we can finally start.” Expectations on both sides are high, business cases have to be made, and reputations are at stake.

Unfortunately, transition efforts are inherently complex and can be difficult and inevitably come with some amount of dissatisfaction and disappointment.

Transition projects try to focus on minimizing problems while accelerating the required activities as much as possible and, in many cases, losing sight of the appropriate expectations. What does this mean for the relationship between a buyer and its service provider? This article shares some of the root causes of why transition projects fail and provides some guidance for addressing them.
The 2017 Global Real Estate and Facilities Management (REFM) Outsourcing Pulse Survey looked at specific drivers and challenges to REFM outsourcing efforts from both a buyer’s and service provider’s perspective. The survey polled both the buyers and service providers on what they felt were the most common challenges of the outsourcing process.

The most common challenge with REFM outsourcing cited by buyers was the quality and fit of the service provider, while the most common reason cited by service providers was inadequate executive and management support of the buyer. Each of the following top five REFM Challenges cited in the survey can have a significant impact on the success or failure when transitioning to a new service provider. “Failure” is defined as outsourcing objectives not being met during transition.

<table>
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<tr>
<th>Buyers</th>
<th>Service Providers</th>
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<tbody>
<tr>
<td>Quality/fit of supporting service providers</td>
<td>45%</td>
</tr>
<tr>
<td>Retained organization/transition/governance</td>
<td>30%</td>
</tr>
<tr>
<td>Prioritizing opportunities and different change programs</td>
<td>34%</td>
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<tr>
<td>Accounting for/managing the complexity of change efforts</td>
<td>21%</td>
</tr>
<tr>
<td>Inadequate executive/management support</td>
<td>23%</td>
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When it comes to transitioning to a new service provider, KPMG advisers continue to observe similar issues including
a) the buyers lack of understanding of the deal and/or scope and accounting for the complexity of the change effort, and
b) an ineffective relationship and poorly established governance program during the transition period.

A poorly managed or negative transition either as a result of the buyer or service provider can result in casting a dark shadow over the relationship between both parties.

What is clear is that a variety of factors, including some of the following, can contribute to a problematic transition.

**Observed root causes for transition “failure”**
- Lack of understanding of the deal/scope by transition teams and buyer’s business units
- Ineffective relationship and program governance during transition
- Inadequate transition project planning and due diligence
- Insufficient transition management (skills, tools, knowledge) by both parties
- Poor personnel on-boarding/transfer process between the client and service provider
- Missed transition deadlines
- Insufficient knowledge transfer and testing (unit, system, service, process) prior to go-live
- Transition teams not ready at cutover
- Poor transition deliverable quality

**Observed most commonly ignored aspects by buyers**
KPMG has identified aspects that clients most commonly ignore and frequently overlooked aspects of transition efforts including:
- Aligning demand-supply processes and organization (e.g., structure, roles and responsibilities, enabling processes)
- Ensuring adequate involvement of the buyer’s business units in the transition
- Effectively managing the change (e.g. risk mitigation, communication planning, etc.)
- Adequately resourcing the transition project (e.g., project staffing, subject matter professionals (SMPs), facilities, admin. support).
Recommendations

In our experience buyers underestimate the impact of the effects of an outsourcing initiative on their organization, which leads to insufficient management attention to make the transition a success.

**Recommendation 1: Never underestimate the effect of outsourcing on your day-to-day business**

While everybody is focused on getting the contract signed and the deal closed, not much attention is being given to the effects of the contract or the change to the processes and power shift within the buyer’s organization. The focus is on the deal between the service provider and buyer, not on the internal organization. So the service level agreements (SLAs), key performance indicators (KPIs), the financial impact, e.g., cost savings, and the way employees are transferred to their new job should be thoroughly considered. REFM outsourcing is generally seen as a REFM initiative. This is not true. The business can be affected as much as the REFM department. The business should be involved at an early stage to create mutual understanding and support for these changes.

**Recommendation 2: Perform a risk analysis on the “change maturity and change ability” of your organization and use the output to adjust the business case**

Normally, a risk analysis is undertaken during the sourcing strategy phase. This phase explores the sourcing options often with a view to ascertaining whether outsourcing will be a viable solution. Next to the continuity of services and the quality, this risk analysis should also take a close look at the ability of the buyer’s organization to manage a high-impact change program.

An outsourcing project really is an organizational change. Check your own “change ability and maturity,” analyze the risks involved, and address these at an early stage. Perform the risk analysis and define mitigation measures. The costs involved in this have an impact on the business case.

**Recommendation 3: Do not confuse the service provider’s transition with your own transition**

Buyers too often have the perception that transition is the service provider’s responsibility. This is certainly not the case. It is a mutual effort with usually more impact for the buyer than for the service provider. Service providers have their own transition approach, one they have used many times. Their transition is focused on getting the services installed as soon as possible, with the right people involved to establish the promised savings on REFM spending and quality enhancements on the service delivery.

The consequences on the buyer organization as a whole, outside REFM, are not necessarily the service provider’s problem.

Frequently, a transition manager is hired by the buyer organization to “manage” the transition, but they often end up focused on the service provider’s transition. As a buyer, you are responsible for your own internal transition. You should manage your organization from the present state to the future mode of operation, and develop new internal processes with business units, and identify your own projects to form an integrated transition program taking into account the service provider’s projects.
Recommendation 4: Manage a transition as you would a reorganization program
The board of directors and stakeholders should be involved in transition to create the right level of attention. Transition is a “normal” change program with high impact and should be recognized as such. Communicate about the outsourcing through all phases: before the decision, during the selection phase, and throughout the entire transition.

Recommendation 5: Identify projects related to the outsourcing in a very early stage and plan ahead; assess the opportunity costs
As described in the recommendation above, a transition program is, most of the time, large and impactful. A transition program draws (management) attention, resources and energy, and competes with other business projects. But the impact is often felt more widely. The transition program can cause other projects to stall. And while this is often unexpected, the business units’ dissatisfaction starts immediately, growing every extra week the transition program is extended.

One remedy is to be aware of this effect in the strategy phase. Take all projects into consideration and assess the impact of the transition program on these (often key) business projects. Calculate the opportunity costs and put these in your business case as well.

Other remedies are to make sure the transition program is a prominent part of your project portfolio management process and to get commitment from the business units to ensure the success of the program.

Conclusion
Transitions when implementing outsourcing contracts are often combined with failures. These failures have large negative implications on the relationship between buyer and service provider, thus impacting the realization of the business case.

Often the cause for failure is considered to be due to the service provider. However, the Buyer can also impact conditions to improve the chance of success. The most important considerations include, but are not limited to:
— Realizing a transition affects not only the REFM department but also each business unit within the buyer’s organization
— Making the transition program part of the normal project portfolio process and carefully assessing the impact on other (business) projects
— Run the transition program as a “normal” program, using your organization’s and industry-leading practices as well as widely accepted program and change management methodologies.

Service provider transition activities:
— On-board employees
— Install new services
— Install IT processes
— Complete configuration of management database

Joint transition activities
— Communication
— Reporting
— Share knowledge

Buyer transition activities:
— Perform risk analysis
— Develop new processes
— Create governance
— Manage projects
— Manage change

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If your organization is seeking innovative ways to achieve genuine business services transformation, KPMG SSOA can help. For more information, there is no better place to start than by accessing our research and thought leadership on the KPMG Shared Services and Outsourcing Institute: www.kpmg.com/us/sharedservices

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