

PROFESSIONAL Outsourcing

Issue 18 Autumn 2014

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Outsourcing both core functions and back office is growing in energy and utilities - we take the temperature

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Win with property

John Gotley of occupier solutions specialist Portal (www.portalgroup.uk.com) argues why adopting the wrong commercial property strategy can threaten the commercial success of both BPOs and clients, while the right decision can help secure more business.

Words such as dynamic, agile and innovative are often overused, well-worn adjectives when describing commercial markets and business models. Of course the exception where these attributes are not only desired, but crucial to success is business process outsourcing. The industry is intensely competitive. To win new contracts it is necessary to move quickly, have a detailed knowledge of cost structures and have the confidence to combine process, people and technology into projects or campaigns that create real value for clients, often over varying time periods.

It's a feat in itself to juggle and account for all these changing factors so you can offer value to clients and still make a profit; the curve ball comes in the shape of property, whether it is offices, contact centres or data centres. This is where the real risk lies, because as every FD or CEO knows there is nothing dynamic, agile or innovative about a building lease or capital purchase. As Michael Power, professor of accounting at the London School of Economics and Political Science (LSE) and director of the LSE's Centre for the Analysis of Risk



John Gotley

“Traditional property models such as lease or capital purchase are not designed to complement the vagaries of a VPO’s unique operation.”

and Regulation says: “Flexibility in commercial property strategies is essential. There is always a risk of onerous leases, either too long or with short-notice break clauses and, with more flexible working, office space capacity or empty surplus may be a risk.”

Conventional strategies

Selecting the right property or offices is a major headache for any type of enterprise, but one of the biggest predicaments facing outsourcers is that they also have to find property that matches the requirements of their clients too. Traditional methods of property procurement such as a standard lease or fit-out often compromise this goal as terms, location and eventual exit conditions are not designed or aligned to meet the more dynamic needs of BPOs' contracts.

For BPOs to make an informed decision they need to establish what their total office costs (TOCs) are likely to be over the entire term of a project and whether they are sustainable. Traditional property models, such as lease or capital purchase, are not designed to complement the vagaries of a BPO's unique operation: one that is characterised by peaks and troughs, sudden ramping up and ramping down, and unforeseen



Maintenance can be a hidden cost

events such as a client cancelling a contract.

From the outset, the whole process of acquiring and delivering a new facility or expansion involves a time-consuming, complex supply chain: from agents to architects, funding to fit-out, as well as then having to manage the facility. Consequently, it is hard to identify and collate all the overheads, so while some costs such as rent typically represent just a third of the overall budget (according to the publishers of the annual TOCS report, Actium Consult), others such as project overruns, management time and ongoing maintenance are more difficult to determine or are simply unknown.

Hidden costs

- The cost of money for capital expenditure
- The cost of overruns – 90% of implementations in the industry go over time and over budget
- Project management of the implementation
- Legal expenses

“Unknown costs such as project overruns, management time and ongoing maintenance are difficult to determine or simply unknown.”

- Maintenance and support contracts – building, plant and machinery, ground maintenance, day to day (for example, carpet cleaning), technology hardware
- Inflation
- Staff costs – recruitment, training, support, attrition, salaries, salary increases, sickness and holiday cover
- General housekeeping
- Cost of unused space during rollout
- Cost of unused space once the operation is up and running
- Future upgrades – forced through health and safety regulations, technology advances
- Cost of getting things wrong – such as employee numbers, business forecasts, installing the wrong equipment

So with a large chunk of commercial property costs unaccounted for, there are potentially huge ramifications for BPOs that rely on standard property leases or, indeed, ownership. As a result, to insure against such risks, outsourcers may be forced to impose expensive break points, high capital investments or cumbersome and costly exits, into any

proposals. However, without a crystal ball to predict future business levels, incorrect property procurement decisions can be very expensive, with the potential to land a BPO with a legacy of various properties that are no longer fit for purpose because they are now at odds with the demands of existing or prospective customer requirements.

Outsourcing property

One solution that many major blue-chip organisations such as IBM and BSKyB have adopted to overcome these challenges is actually outsourcing their entire commercial property requirement to a specialist third party in the form of what is known as managed office solutions (MOS).

So, how does MOS work and how can it help to more closely mirror the fluctuating and sometimes diverse property needs of an outsourcer?

Firstly, MOS should not be confused with off-the-shelf accommodation packages, such as serviced offices that are more suited to meet short-term capacity issues. Instead they are aimed at providing longer-term accommodation configured to the exact requirements of an occupier (BPO). This can be at an existing or new location of their choice and comprises completely managed facilities based on a fixed price per workstation contract, but with no capital expenditure or risk carried by the occupier, so no scope for mid-term surprises.

The third-party MOS supplier is normally responsible for either new additional capacity and/or managing an existing range of properties, so the BPO can limit both overall costs and also future exposure to changing circumstances. Initially, an extensive discovery process would be carried out to understand the key requirements and objectives, what type of BPO contract or business opportunity the accommodation/facility needs to be aligned to, where the property should be located, followed by a complete bespoke fit-out,

“Incorrect property procurement decisions can be very expensive and land a BPO with properties that are no longer fit for purpose.”

ongoing facilities management, IT (if applicable) and provisions for a clean exit or options for future occupation.

Contrary to the perceptions of many property professionals, adopting a MOS-based approach is proven to be cost-effective and in many cases, according to industry experts such as Actium Consult (TOCS Report 2012), they are usually cheaper than like-for-like traditional models when compared on a per workstation per month basis throughout the entire term of the contract. Professor Power of the LSE says of managed solutions: “Much depends on the specific managed solution contract. Office property values are very volatile and cyclical, so risk-averse CFOs are attracted by managed solutions, particularly if there is a dearth of skill sets to provide oversight of property portfolios, including strategic let/buy decisions.”

Benefits of managed solutions

Unlike with leases or a capital investment, where the onus is on the occupier to find and spec out new or additional office space, MOS provides a consultative approach to property, so the third-party property expert can release the BPO from the burden of finding, negotiating and securing the ideal space, not to mention the logistics and time involved in getting it ready for occupation. So whether a property needs to be configured and customised for any type of function such as a contact centre, head office, back office or perhaps a so-location or co-location data centre, by outsourcing there’s no drain on internal teams.

A typical scenario could be in a pitch situation where a BPO needs to convince a prospective client that it has the ability and resources to move quickly, perhaps to take advantage of a new market either home or overseas. One of the advantages of MOS is that with an expert on board, you are in a far superior position to be able to deliver the appropriate property within the shortest

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possible time frame. This exact scenario happened with one of our own clients who was up against an incumbent supplier for a major government BPO contract. By guaranteeing that it could provide two business-ready facilities within five months, they were able to clinch the deal.

BPOs can also take advantage of the same approach to duplicate existing facilities for disaster recovery, so they can guarantee business continuity in the case of a fire or a serious IT failure.

The knowledge of outsourced experts brings other tangible benefits, especially insight into areas such as space utilisation and the impact of effective office design on wellbeing and productivity. For instance, if you are paying a per-desk rate, understanding the way staff work can allow you to optimise your desk usage and also create a more conducive working environment.

All of the above enables CFOs, in-house property managers and project directors to gain true cost clarity from the onset and achieve more accurate forecasting. So, if an air conditioning unit breaks down, severe weather causes a flood, or any unplanned or unforeseen event occurs, these problems and opex costs are absorbed by the MOS provider.

There are some restrictions, however, with MOS, in that it lends itself where terms are two years plus, although some suppliers can re-purpose solutions from their existing property stock or even offer a solution whereby they can re-structure a BPO's existing portfolio and offer it back to them on terms that better fit with their revised business plans.

The potential benefits of MOS to BPOs include:

- Complete cost clarity throughout the term of their property contract with no capital outlay and on a fixed-price basis;
- Align properties strategy with client contracts;
- Reduced risk of developing legacy,



Crises like this can be absorbed by a MOS provider

“By embracing a ‘practice what you preach’ philosophy, BPOs can demonstrate to existing and prospective clients that they recognise outsourcing’ sing’s value.”

unfit-for-purpose property portfolios;

- Contractual guarantee to have property delivered on time, on budget and fit for purpose;
- Stringent service level agreements (SLAs) to ensure “peace of mind” of business continuity throughout the contract period without any future capital outlays;
- No depreciation and obsolescence on technology;
- Clean exit at term – with no dilapidations, lease overhangs or legal fees to pay.

Practising what you preach

MOS as a property and accommodation supply and management option has the potential to play a significant role in a BPO's overall property strategy. Agreed, it may not suit every circumstance on every occasion, but it does provide outsourcers with another weapon in their armoury that can be used in specific circumstances to satisfy a particular property requirement.

As Howard Freedman, head of Baker Tilly's real estate and construction group said: “One size doesn't fit all, but what's absolutely essential is that companies look at their real estate strategy in the context of their business strategy.”

Certainly the MOS approach offers a practical alternative to traditional lease or buy, but more importantly it ties in more closely with both the demands of the BPO and also its clients.

By embracing a “practice what you preach” philosophy, BPOs can demonstrate to existing and prospective clients that they too recognise the added value that outsourcing can bring to the table. A BPO's core competence is the ability to deliver highly trained people, expertise and innovative processes to match the constantly evolving requirements of their customers, which they themselves may not be able to provide in-house. By outsourcing property, BPOs, like their clients, can benefit from playing a trump card that sets them apart from rivals.