ISS 2020 Vision

Future of Outsourcing and Perspectives for Facility Management

Moving beyond 2020, megatrends are reshaping outsourcing in several ways. New models of collaboration are emerging, and we are shifting towards business propositions rooted in relationships and outcomes, rather than transactions and inputs.

The future of outsourcing will be characterized by a high degree of collaboration in order to boost global competitiveness. Outsourcing is evolving to accommodate new market needs and the growing complexity of the challenges that will continue to face businesses in the future. Organizations will be demanding more from Facility Management as they come to realize the strategic value of work, workforce and workplace in enabling organizational transformation.
Future of Outsourcing and Perspectives for Facility Management
“If you really look closely, most overnight successes took a long time.”

Steve Jobs, Businessman
1. Foreword

The increasingly volatile, uncertain, complex and ambiguous business environment towards 2020 requires that businesses articulate sharply defined strategies and partner with organizations that enhance their competitiveness and agility.

In this environment, outsourcing relationships and contracts are polarizing: On the one hand, relationships are changing to enable more long-lasting and strategic partnerships. On the other hand, some outsourcing relationships are also becoming more episodic and consumption-based. In more sophisticated arrangements, service providers will play a greater role in fulfilling the strategic objectives of their customers, with contracts serving as a framework for the relationship. In more consumption-based contracts, client organizations will pay only for what is used.

In order to derive the most benefit from their partners in the future, business leaders must be able to grasp how business relationships are changing and understand the new, emerging paradigms of outsourcing. This will enable them to choose the outsourcing approach that best suits the needs of their organizations.

ISS 2020 Vision: Future of Outsourcing and Perspectives for Facility Management aims to develop new, progressive concepts to meet these challenges and help ISS customers maximize the value of their operations. The study presents an assessment of the key trends shaping outsourcing towards 2020 and beyond, and identifies five emerging outsourcing approaches, including their value-creating attributes and potential risks.

The Future of Outsourcing and Perspectives for Facility Management study was developed through: 1) a meta-study of megatrends and industry trends conducted by the Copenhagen Institute for Futures Studies (CIFS); 2) a series of in-depth interviews from which input from eleven outsourcing experts was gathered; and 3) a global survey conducted by ISS, CIFS, and CoreNet Global, highlighting key perspectives from outsourcing professionals and FM experts.


I hope that this study will inspire you to explore the potential of outsourcing that is vested in new models for collaboration within your organization and among your partners.

Andrew Price
Group Chief Commercial Officer
“The art of simplicity is a puzzle of complexity.”

Douglas Horton, Academic Leader
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Thank you!

Peter Ankerstjerne
CMO / Head of Group Marketing
ISS 2020 Vision – Project Responsible
“Service providers and the top management of client organizations should act as partners.”

Michael Corbett, Founder and Chairman, IAOP
3. Executive Summary

Owing to accelerating pace of change as well as to increasing complexity and disruption, business and competition now extends into most areas. Organizational strategies, therefore, must be sharp and better articulated. A new era of business is emerging – defined by hyper-competition and bold collaboration to enhance both competitiveness and flexibility. Fluidity is increasing, and industries are converging. For example, it is now often difficult to articulate the core business areas of major technology companies, such as Apple and Google. Likewise, “FM outsourcing is becoming a key component of human resource strategy.”

More and more, organizations are becoming interested in pursuing new models of outsourcing with a higher degree of collaboration that fulfil their outsourcing goals and expectations. That is, specifically, cost flexibility and cost savings, innovation, growth, brand protection, and access to both talent and new markets.

Future outsourcing within facility management (FM) arrangements transforming and being driven by developments operating on three levels: 1) megatrends; 2) trends in outsourcing; and 3) trends in FM outsourcing.

Megatrends

Growing populations, technological development, decentralized processes, and growing complexity are some examples of the fundamental economic, social, technological, and political shifts brought forth by megatrends that will come to transform the future of outsourcing. Organizations now and in the future will be required to engage with megatrends in some capacity in order to maintain and further their position in the market.

Megatrends will reshape the outsourcing industry in four fundamental ways:

- Change the way in which providers differentiate themselves and compete
- Create new service provider relationships
- Introduce new contract forms
- Open up service areas for outsourcing.

With these trends planned into the market, businesses will be able to develop new product and service offerings, and capitalize on their growth potential.

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**Outsourcing trends**

Likewise, towards 2020 and beyond, there are three key trends that are transforming outsourcing:

- Outsourcing is becoming more strategic.
- Relationships between sourcing firms and outsourcing providers are evolving from being transactional towards a spectrum of relationships based on various degrees of interdependence.
- Outsourcing is pervading more regions globally.

While the impacts will vary by industry, process maturity and region, they reflect the general tendencies and changes in outsourcing towards 2020 and beyond. For example, there is likely to be much more relationship-driven, outcome-based outsourcing as evidenced by a new form of partnership developing between ISS and Nordea Bank, which is rooted in a mutual desire to increase strategic synergies and value through increased alignment and expansion of the covered services (see case study).

**FM trends**

In many ways, Facility Management (FM) and workplace management form the cornerstone of business – an ever-evolving array of increasingly strategic support processes dealing with the integration of corporate real estate (CRE), facility services, talent and asset management, among other things.

There is still significant potential for FM outsourcing over the coming decade. Sixty-eight per cent of survey respondents believe that FM will be outsourced more in the future.\(^2\) FM will focus on supporting talent management, creating dynamic workspaces, and driving behavioral change among employees in customer organizations, while reducing FM's labor intensity and improving its ability to use data analytics to drive service delivery. In light of the megatrends and the range of trends in outsourcing, there will be increased emphasis placed on personalization and on business innovations in FM outsourcing, transforming the industry.

**Emerging sourcing approaches**

Outsourcing is growing more complex to accommodate new market needs. We have identified five emerging sourcing approaches that could change how outsourcing partners interact over the coming decade:

- **Crowd sourcing**: The process of obtaining needed services and solutions by soliciting contributions from a large group of people through 3rd party platforms, rather than from in-house employees or service providers.

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• **Solution sourcing**: A form of **B2B crowd sourcing**, where client organizations solicit solutions and select a partner from a large number of external service providers, placing a strong emphasis on value-based business outcomes rather than on cost.

• **Network sourcing**: An approach for obtaining and delivering needed services and solutions within and between **value networks**.

• **Co-sourcing**: A long-term, one-to-one business arrangement wherein business functions are maintained through a combined effort by internal and external partners, both with a mutually **vested interest** in the outcome of the collaboration.

• **Mesh sourcing**: A highly collaborative, **networked eco-system** approach to outsourcing and service provision. Business interests and operations are meshed across several organizations, sharing mutual interest in profit, values and social change.

**Recommendations**

As outsourcing grows in importance as a strategic consideration, executives and FM managers will have to undertake pragmatic self-evaluation to determine the sourcing approach that best meets their organizational needs. The increasingly integral role of FM necessitates a more nuanced look at the risks and values associated with outsourcing for any given process or activity. When considering outsourcing, organizations should take into account where their competencies lie and where their potential for differentiation resides.\(^3\)

Outsourcing is an undertaking that must be aligned and embedded within an organization’s vision and must contribute to the strategic, management and operational objectives derived from said vision, within a given time horizon. There are three angles that organizations and decision-makers must consider relating to when and how they want to use outsourcing:\(^4\)

**Outsourcing as a strategic tool**

• Outsourcing focused on supporting and actively contributing to the company’s long-term strategies through alliance-type arrangements. Outsourcing primarily resides at the organizational level with executive decision-makers who are concerned with the system-wide strategic direction of the business and the overall value proposition, for example.

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Outsourcing as a management tool
- Outsourcing designed to move an organization away from vertical integration and self-sufficiency towards a business structure that allows for more focused investments in areas that offer competitive advantages. Outsourcing primarily resides at the business process level. For example, this includes integrated facility services and full human resources solutions.

Outsourcing as a tactical-operational tool
- Outsourcing driven by a desire to solve a practical problem in order to achieve a net operational efficiency gain. Outsourcing primarily resides at the functional activity level. For example, this refers to specific activities such as cleaning, catering, payroll or talent management.

The decision to outsource entails evaluating the risks and value associated with a given sourcing approach or model. Businesses should look to maximize value while minimizing risk when engaging in an outsourcing arrangement by considering the risks and value associated with the people, processes and sometimes systems involved.

Change management

With outsourcing comes change. More than anything, it is a source of disruption for organizations that affects employees, the quality of service, the execution of business tasks and the organizational culture. However, a sound change management approach that places people at the center will ensure that the transition is smooth and project objectives are reached. This includes getting engagement and willingness to embrace the change through active communication, managing emotions and involving employees wherever and whenever possible.\(^5\)

With the growth of outsourcing at the strategic level towards 2020, there is more at stake – profitability, market position, sensitive IP and other data, and talent. Indeed, all stakeholders (client organizations, employees and service providers) benefit from a world-class transition management process that can mobilize actors and enable transformative change.\(^6\) Thorough and effective transition management will assist employees in moving seamlessly and quickly through the four psychological phases of a transition (shock and disbelief, resistance and frustration, transformation, embracing and trying), whereas poorly executed change strategies will do the opposite. A successful transition process can take productivity and job satisfaction to a higher level than prior to the outsourcing process.\(^6\)

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Conclusion

When making the decision to outsource with one of the five emerging sourcing approaches, businesses should avoid the “outsourcing paradox” insourcing activities or business processes that have become extremely valuable to the organization. Businesses should not seek to maintain an outsourcing relationship that is characterized by micro-management. They should trust in their service provider to act in their business interests with innovative sourcing models.7

Value generation will emerge from the integration of diverse and fragmented interests, processes and systems. Here is where outsourcing, specifically FM outsourcing, will drive future business success. FM service providers will come to occupy a central position in supporting the activities and business processes of organizations through intellectually-based service activities and systems. Being able to coordinate and facilitate diverse business processes and the interests of stakeholders for a client organization, with a complete model as part of an outsourcing arrangement, is the new direction for FM service providers.8

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"I always like to look on the optimistic side of life, but I am realistic enough to know that life is a complex matter."

Walt Disney, Film Producer
4. Introduction

The world is accelerating and becoming increasingly complex. Innovation is disrupting industries left and right. The parameters of business are extending to the point where few areas are left untouched. As a result, organizational strategies must be sharper and more articulated than ever before. We are entering a new era of business defined by hyper-competition and bold collaboration to enhance both competitiveness and flexibility. Fluidity is increasing, and industries are converging. The following four fundamental shifts in outsourcing define the main shifts in the industry:

- Organizations are leveraging outsourcing to become more agile and flexible.
- Outsourcing is being driven more by strategic intentions.
- Outsourcing is becoming more complex and multifaceted with a greater focus on innovation.
- The boundaries between outsourcing and collaboration are continuing to blur and will eventually become virtually indistinguishable.

New models of collaboration

The new norms of business dictate that interconnectedness and interdependencies across all dimensions of an organization will grow. This is necessary to reduce the vulnerability that comes with more dramatic fluctuations in global markets. It is becoming a business imperative to maintain high levels of agility and organizational ambidexterity (the ability to be innovative and explorative while also being able to execute one’s strategy efficiently).

The business climate in 2020 and beyond is likely to be different from today’s, with new operating models supplementing existing ones. In this regard, there is great potential in the future of outsourcing. It will become increasingly important to focus on relationship and network management for business success, fully capitalizing on the significant potential that value networks can yield by tapping into the collective group in order to identify and execute new market opportunities and leverage points. Indeed, there are growing opportunities for organizations who assume responsibility for facilitating meaningful interactions among a diverse set of stakeholders. More and more intermediaries such as deal and alliance architects will gain prominence.

At the same time, there is an increasing tendency towards hyper-specialization. Companies are looking to invest in developing and fine-tuning their competencies as a way of enhancing their competitiveness. Opportunities will arise for service providers to support the strategic business objectives of client organizations by 1) allowing them to redirect internal resources to high value areas and 2) participating in co-creation initiatives where high-skilled internal and external talent work in conjunction.

More and more, organizations are becoming interested in pursuing new models with a higher degree of collaboration that fulfills their outsourcing goals and expectations, those being cost flexibility and cost savings, innovation, growth, brand protection and access to both talent and new markets. Indeed, the International Association of Outsourcing Professionals’ (IAOP)
2013 State of the Industry survey notes that 60% of organizations prioritize outsourcing for growth – outsourcing to focus on value-generating areas of business – followed by 50% who outsource for cost savings and 39% for access to talent and skills. New models of collaboration are becoming essential in order to maximize the effectiveness and return potential of outsourcing.

**New Ways of Working**

 Outsourcing is changing the way we work. Outsourcing is “as significant as the industrial revolution, scientific management, or the emergence of the mature bureaucratic form was, each of which fundamentally affected both work and workers, and each of which has been the subject of substantial research”.  

At the same time, outsourcing is being disrupted by New Ways of Working (NWOW). One central outcome of New Ways of Working is the blurring of boundaries between strategic business decision-making and the procurement of services in areas like FM, IT, business process outsourcing, and corporate real estate. As a result, the FM industry is in many ways evolving from a single services outsourcing approach towards an industry that provides complete and integrated Workplace Management solutions. This transformation was highlighted in *ISS 2020 Vision: New Ways of Working – The Workplace of the Future*.

Outsourcing is associated with important changes in the design and functioning of jobs, work processes and groups, internal labor markets, and key intra- and inter-organizational structures. Project-based work will become the norm over the next decade, with most workers operating as free agents, assembled on a project-by-project basis. Talent will come together from inside and outside the organization to form work groups and solve a specified issue, before moving on to other projects.

Likewise, with increased automation of routine work, a growing number of human jobs will become more creative and focused on research, design, innovation, storytelling, product development, etc. People will be rewarded for their ability to work across disciplines and professional boundaries.

Maintaining competitiveness requires providing opportunities for co-creation. Co-creative processes need new measures. Success will be defined more in terms of outcomes achieved and less in terms of input (hours) or output (amount produced or number of sales). Outcomes are defined as meaningful changes, usually betterments that do not always directly result from specific inputs or outputs but are aligned with an overarching organizational vision. The idea is to get the best out of people (talent), not just the most out of people (effectiveness). Organizations will be responsible for setting the direction and allowing employees to pursue outcomes by any measure of inputs or outputs they deem necessary. All these changes will necessitate a facility response.

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4.1 About the report

As an industry thought leader, ISS continues to explore the changes in today’s dynamic business environment. By pushing boundaries and bringing new knowledge to the fore, ISS is able to bring insights related to the future of outsourcing and FM to client organizations and others in the industry.


Together with futurists from the Copenhagen Institute for Futures Studies (CIFS), ISS carefully evaluates the future of outsourcing to identify the key changes that are occurring and why in order to explore potential emerging opportunities and threats.

4.2 Objectives

This report provides an analysis of the global business environment, megatrends, industry-specific trends and drivers affecting the future of outsourcing. The publication develops visionary, yet practical insights for understanding and navigating the future of outsourcing, highlighting key changes and new directions.

*ISS 2020 Vision: Future of Outsourcing and Perspectives for Facility Management* aims to empower businesses with knowledge and recommendations for how to navigate the increasingly complex business environments when it comes to outsourcing and collaborative partnerships towards 2020.

Other core objectives of *ISS 2020 Vision: Future of Outsourcing and Perspectives for Facility Management* are:

- Highlight significant research-driven areas of opportunity for FM and services industry managers to develop new competencies within outsourcing.
- Envision service concepts for FM companies to support client organizations in the private sector.
- Create a tool for dialogue in discussions concerning new models of collaboration and the future of outsourcing as it relates to the FM and services industry.
- Establish a common reference point for future developments, challenges, and solutions related to outsourcing and collaboration.
4.3 Format

This publication comprises three primary sections:

- **The trend analysis** section looks at the primary trends and drivers shaping the future of outsourcing with special focus on implications for the FM industry. It consists of an analysis of megatrends, trends in outsourcing, and trends in FM outsourcing.
- The section on **emerging sourcing approaches** takes a thorough look at five models of outsourcing expected to gain prominence towards 2020. The sourcing approaches are mesh sourcing, co-sourcing, network sourcing, solution sourcing, and crowd sourcing.
- The **recommendations** section offers key insights into how to evaluate and use the emerging sourcing models outlined in the previous section.

4.4 Process

During the spring and summer of 2015 (see Figure 1), the research by CIFS and ISS consisted of:

- A meta-study of megatrends and trends shaping the future of outsourcing with a specific focus on FM
- A global survey of 281 FM experts and outsourcing professionals conducted by ISS, CIFS and CoreNet Global, exploring *Outsourcing of FM/CRE in the Private Sector*. Of the survey respondents:
  - 59% come from large global organizations with more than 10,000 employees.
  - More than 64% currently holds an executive position with their organization.
- A round of in-depth interviews with 12 subject-matter experts within the fields of FM and outsourcing, completed in May 2015 (see Acknowledgements for the list of interviewees).
**Figure 1: Research process for ISS 2020 Vision: Future of Outsourcing and Perspectives for Facility Management**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
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<td>April</td>
<td>May</td>
<td>July</td>
<td>August</td>
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<td>Objective</td>
<td>Identify latest research on trends and developments related to private sector outsourcing</td>
<td>Identify, develop and test emerging sourcing approaches in private sector outsourcing</td>
<td>Present the preliminary results of the study and envision opportunities for the FM industry</td>
<td>Conclude the findings and finalize the study</td>
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<tr>
<td>Form</td>
<td>Desk research</td>
<td>Survey and interviews</td>
<td>Qualification</td>
<td>Finalization</td>
</tr>
<tr>
<td>Tasks</td>
<td>Collect relevant studies and data</td>
<td>Identify emerging sourcing approaches affecting the future of private sector outsourcing</td>
<td>Present the preliminary results from the survey and interviews</td>
<td>Collect comments and finalize the study</td>
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<td></td>
<td>Identify interview subjects</td>
<td>Identify the key implications for the FM industry</td>
<td>Debate the insights on emerging private sector outsourcing practices</td>
<td>Edit the publication and send it to print</td>
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<td>Develop an interview guide</td>
<td>Develop survey questions</td>
<td>Find the areas of impact for the future of the FM industry</td>
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“Effectively, change is almost impossible without industry-wide collaboration, cooperation and consensus.”

Simon Mainwaring, Branding Consultant
5. Trend Analysis

When taken in combination, current, observable trends have significant implications for how businesses operate and how we work in 2020 and beyond. Trends interact on many different levels. It is at these intersections between trends that many of the biggest opportunities and greatest threats appear. The following section provides an analysis of trends and their primary impacts on outsourcing.

Changes to outsourcing are driven by trends occurring within three frames. The three frames are megatrends, trends in outsourcing, and trends in FM outsourcing. As outlined in Figure 2, combining the three sets of trends results in the emerging sourcing approaches described in Chapter 3.

First, megatrends are regarded as macro-level drivers of change; they are great forces that impact the many dimensions of business and society. Second, trends in outsourcing represent significant changes in the contextual environment. More specifically, they describe substantial shifts in what activities and processes are being outsourced, the types of outsourcing arrangements being used, the motivation for outsourcing, and the impact on employees. Lastly, trends in FM outsourcing outline major changes in the FM industry. They represent specific shifts in FM service models and in the way FM outsourcing is approached.

Figure 2: Frames of trend analysis

Emerging sourcing approaches
5.1 Megatrends shaping the future of outsourcing

Growing populations, technological development, decentralized processes, and growing complexity are some examples of the fundamental economic, social, technological, and political shifts brought forth by megatrends that will come to transform the future of outsourcing. More and more, organizations are being required to engage with megatrends in some capacity in order to maintain and develop future competitive advantages.

Outlined in Figure 3 is a list of 14 megatrends employed by CIFS. They are inclusive of factor megatrends, value megatrends, social megatrends and knowledge megatrends, together representing the major socio-economic developments of the 21st century.
Figure 3: CIFS megatrends (Source: CIFS, 2015)
**TECHNOLOGY DEVELOPMENT**
The application of knowledge or science to commerce and industrial processes. Both the innovation and diffusion of technologies.

**ACCELERATION AND COMPLEXITY**
Shortening business, innovation and product life cycles with greater industry convergence.

**KNOWLEDGE SOCIETY**
The growing economic value of knowledge where information and data constitute the primary economic asset in several industries rather than raw materials, labor capacity or capital.

**IMMATERIALIZATION**
Changes in our perceptions and values that include greater focus on post-materialism – authenticity through a consideration of design, aesthetics, fashion, culture, storytelling, values and experiences.

**POLARIZATION**
The growing gap between extremes, such as top and bottom market segments, at the expense of the middle segment.

**FOCUS ON HEALTH**
Global movement towards improving health and well-being, transcending all aspects of public, private and professional lives.

**DEMOCRATIZATION**
A process of transformation in which equality, access and transparency are improved. Much of democratization is concerned with accountability, decentralization, empowerment and openness.
GLOBALIZATION
The process of interaction and integration among the people, cultures, companies and governments of different nations. Global flows of information, technology, products, services, and capital.

SUSTAINABILITY
Meeting the needs of the present without compromising the ability of future generations to meet their own needs.

COMMERCIALIZATION
Areas in society and the public sector that become assigned to commercial business.

TRENDS

DEMOGRAPHIC DEVELOPMENT
Measurable changes in demography and a range of secular trends covering characteristics, distribution and size in human populations – age, ethnicity, religion, family composition, education and residence.

ECONOMIC GROWTH
Overall increase in productivity and subsequent growth of wealth on a global scale.

NETWORK SOCIETY
A modern society and business operating environment where networks shape the primary mode of organizational structures.

INDIVIDUALIZATION
Increasing desire for personalized products and services that directly conform to the needs and interests of any particular user or business.

SUSTAINABILITY
Meeting the needs of the present without compromising the ability of future generations to meet their own needs.
Megatrends, industry competition, and business differentiation

Towards 2020, the main outsourcing market differentiators will develop in five key ways:

- Technological and virtual sophistication
- Personalized services at the most relevant touch points
- Transparent business processes
- Anticipatory thinking and organizational agility
- Sustainable solutions.

Outsourcing providers will differentiate themselves according to their technological sophistication. This will require them to maximize their innovation and value creation capacities, and be able to harness technology as part of their service delivery. As a result, the need for speed and agility will require organizations to analyze what is occurring, develop new strategies to seize fleeting advantages, and execute operations efficiently.

Driven by the desire for personalized services and the creation of more intimate networks, outsourcing providers will differentiate themselves by their ability to offer enhanced customer experiences and tailored solutions at the most value-adding touch points. This will require service providers to invest in establishing value-based relationships.

Outsourcing providers will also create a differentiation based on their abilities to create open and fair business processes built upon transparency and trust. More of an emphasis will also be placed on the alignment of values between service providers and client organizations, leading to further opportunities for service providers to offer a differentiated experience related to their value proposition.

Maintaining service standards in an increasingly complex global business environment is becoming more challenging, as the durations of business cycles are being reduced by aggressive competition coming from emerging regions and adjacent industries. It is no longer enough to be best in class in a region or country. The focus is now on becoming world class.

Firms have realized that it is no longer possible for them to gain and maintain competitiveness in the global market on their own. Involving other firms via outsourcing has been a useful strategic tool to leverage globally dispersed resources, as it provides advantages in cost, capability, and many other aspects compared to doing it alone.

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Sustainability and resource scarcity will increasingly affect competition across all industries—not only in environmental terms as it relates to the procurement or use of raw materials, but also in regards to human resources. This demands greater resource efficiency from all corners of the value network with a particular emphasis on resource management.

**Megatrends and service provider relations**

Towards 2020 and beyond, megatrends will drive service provider relations development in four key ways:

- Faster and more innovative value creation
- Increased technological integration
- Hyper-specialized collaboration and co-creation
- Greater knowledge sharing.

Acceleration is continuing to increase reliance on the capabilities, capacity and agility of outsourcing providers. The challenges businesses are now facing are also becoming more complex. This makes close outsourcing relationships more important, but they also have to ramp up faster: “The difference is, with shorter contract cycles, you have to establish that connection from day one. Service providers have to start delivering innovation and value quickly.”

Technology development optimizes communication with customers and partners, opening new outsourcing markets, smoothing and accelerating service delivery, and driving integration of external deliveries into internal processes. By having data flow freely from customer to outsourcing partner, technological development enables businesses to have transparent and open relationships that are more integrated.

In a time of growing individualization, user requirements in terms of quality and innovation in efficiency and precision of solutions and service deliverables are likely to grow. This will prompt continued hyper-specialization. As such, service providers will be required to embrace a level of versatility and place greater emphasis on individualized relationships, close collaboration, and co-creation.

Democratization is also changing relationships between service providers and client organizations. These relationships will be centred on decentralized leadership and decision-making and greater knowledge sharing. There is an on-going shift in organizational structures away from hierarchies towards new engagement models characterized by dynamic flows of power and authority. In the future, open and innovative organizational models based on information and trust will help businesses become more results-oriented by harnessing resources and talent and breaking down silos inside and outside organizations.

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**Megatrends and outsourcing contracts**

Towards 2020, megatrends will drive the following changes in outsourcing contracts:

- Polarization towards either agility or stability
- Smart contracts measured in real time
- Leveraging networks

An accelerating and increasingly complex business environment necessitates a change in contracts – on the one hand, short-term contracts that boost organizational agility, and on the other hand, long-term contracts or agreements that offer stability, but with higher degrees of flexibility.

Managing contracts and measuring deliverables will increasingly be done in real time by service providers and client organizations jointly using technology to improve monitoring and subsequent adjustment of service delivery to better fulfill end-user needs.

In light of growing global reach and interconnectedness, organizations will increasingly be required to enable operational variability across markets. Local characteristics will likely become more pronounced in contracts towards 2020. The challenge for service providers with globalization is in providing a global offering for businesses. The key is to adapt global values to local cultures to ensure that operational efficiency and productivity are optimized and outcomes are achieved.

The reorientation of organizations around networks is also becoming more apparent and will influence contracts to a greater extent towards 2020. Access to networks is becoming prioritized over knowledge, as organizations will no longer have the capacity to tackle everything themselves. Organizations must open themselves up to the depth of knowledge available and engage with relevant trusted partners. New ways of working, including approaches characterized by open innovation, sharing, collaboration, value networks, and crowd sourcing, are coming to dominate as business models worldwide – and will likely increasingly be included as parameters in contracts. Users, manufacturers, service providers and employees will have to think about work processes and spaces that can accommodate this in new ways.

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Megatrends and outsourcing service areas

Towards 2020 and beyond, outsourcing services will develop in many areas, some of which will be:

- Specialist services
- Services relating to capturing, analyzing and acting on data
- Value- and experience-related services
- Health and well-being services.

With ever-increasing technological sophistication comes specialization and greater demand for specialist services. For example, Oxford researchers say that 45% of America’s occupations are susceptible to automation in the next 20 years.\(^\text{16}\) Thus, the domain of outsourcing will expand into new service areas to include new activities and processes, creating new market opportunities for service providers.

Within FM and CRE, this could materialize within the area of sustainability, for example. A growing network society also means that there will be increased demand for alliance and deal architects – those specialists who are experts at facilitating interactions and relationships within and between networks.

Further, where information and data constitute the primary economic asset in several industries, new service opportunities will emerge for industry players who are well positioned to either gather context-specific data and/or process it. Huge data sets with integrated storage, analytics and applications will drive the efficiency, quality, and personalization of products and services, transforming industries like FM and real estate.

The emergence of the experience economy\(^\text{17}\) – where the primary economic value resides in experiences and other immaterial attributes – is opening up new avenues for service innovation and market opportunities. The activities and processes being outsourced – design, aesthetics, culture, storytelling, values, and experiences – are becoming more immaterial in nature. There will be greater focus on service design and user experience of existing offerings – a client-centric approach with emphasis placed on the emotional journey as a value-added aspect of service delivery.

With greater emphasis on the health and well-being of employees, it is likely that new organizational wellness solutions will be delivered by service providers. In general, service providers must be prepared to accommodate these new demands and emerging service areas or be willing to partner with those who can provide solutions. This will involve providing new on-site professionals such as therapists, trainers, coaches and doctors as a human resources or FM function, for example.


5.2 Trends in outsourcing

Towards 2020, outsourcing is changing in three fundamental ways:

- Outsourcing is becoming more strategic and less focused on driving cost reductions.
- The relationships between sourcing firms and outsourcing providers are evolving from being transactional towards a spectrum of relationships based on various degrees of interdependence.
- Outsourcing is pervading more regions globally.

The organizations that use outsourcing most are no longer using outsourcing to drive cost reductions – they have harvested these benefits. Outsourcing in these advance markets and industries has become over-commoditized. Prices cannot be pushed down any further without achieving negative returns. According to interviewed subject-matter experts: “We have over-commoditized what we outsource. A lot of times we think of outsourcing as buying and selling instead of a return on investment or motivating the service provider to drive change and transformation.”  

In these markets, organizations are creating new outsourcing arrangements that are leaner, more flexible and interdependent, with increased goal and risk sharing between service providers and client organizations. In the future, “outsourcing will be driven more by strategic intentions”, as interviewed subject-matter experts explain. “Companies who outsource for tactical reasons are going to reconsider and focus on the strategic implications of how processes are defined; do I need this process close to my organizational core or not? What competitive advantage does it yield?”

Therefore, the concept of outsourcing is expanding and becoming more complex and multifaceted. The boundaries between what once were defined as outsourcing and as collaboration will continue to blur until they become virtually indistinguishable. “Over the next 20 years, we are going to see an environment where the question of insourcing versus outsourcing will become obsolete. It will be a fluid environment in terms of business form and delivering value to the customer, while constantly changing. One will blend these things to create value.” Many relationships will become interdependent.

Businesses, therefore, are coming to realize that networks, partnerships, and cooperation provide much greater value than operating in closed systems. Involving external capabilities through outsourcing or other collaborative arrangements is becoming a business imperative, necessary to remain competitive and create new value. Outsourcing, therefore, is moving closer to core business areas.

Subject-matter experts expect outsourcing to pervade more regions globally by 2020. “There will be very few regions in the world that will try to operate a business with the business’s employees providing everything. It is going to be a changed world.”\(^\text{21}\) As shown in Figure 4, 76% of survey respondents also expect outsourcing to be used more over the next decade.

![Figure 4: Extent to which outsourcing will be used in 2020 (see appendix)](image)

Towards 2020, trends are transforming outsourcing in four key areas (Figure 5):

1. Outsourcing reasons: Changes in the motivations prompting the use of outsourcing.
2. Outsourcing areas: Changes in the business activities and processes being outsourced.
3. Outsourcing arrangements: Changes in the nature of contracts and collaborations.
4. Impact of outsourcing on employees: Changes in the way outsourcing is affecting employees and the workforce.

While the impacts will vary by industry, process maturity, and region, they reflect the general tendencies and changes in outsourcing towards 2020 and beyond.

Figure 5: Four areas of outsourcing transformation

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Towards 2020, the core trends transforming outsourcing lie within the motivations for choosing to outsource different business activities and processes on the market. Outsourcing will be increasingly used to drive value creation and innovation within organizations. Businesses will use outsourcing as a tool to consistently position themselves at the leading edge of their industries by accessing the best talent, resources and capabilities, and, occasionally, by using outsourcing to gain access to new markets.

The need for innovation, agility and progressive ideation will shift value creation into new areas. There will be emphasis on developing better processes with increased focus on core competencies and market differentiation. "Outsourcing will serve as a mechanism to share the risks and value associated with a particular endeavor. This entails building strategic arrangements and building value networks to boost organizational agility and become market leaders, allowing businesses to continuously and fluently tap into the best talent, capabilities and best resources.”

Figure 6 outlines the key trends in outsourcing reasons towards the future as they compare with traditional and current inclinations.

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Current</th>
<th>Emerging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase value</td>
<td>Transfer risks</td>
<td>Share risk value</td>
</tr>
<tr>
<td>Capital availability</td>
<td>Value enhancement</td>
<td>Value creation</td>
</tr>
<tr>
<td>Organizational specialization</td>
<td>Increase end-user value</td>
<td>Boost organizational agility</td>
</tr>
<tr>
<td>Redirect skills to high value-adding areas</td>
<td>Access to expert skills</td>
<td>Build value networks</td>
</tr>
<tr>
<td>Functional specialization</td>
<td>Market responsiveness</td>
<td>Market leadership</td>
</tr>
<tr>
<td>Maintain activities</td>
<td>Manage operations</td>
<td>Improve processes</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>Cost discipline (cost/benefit)</td>
<td>Invest in strategic value</td>
</tr>
<tr>
<td>Activity efficiency</td>
<td>Process optimization</td>
<td>Organizational transformation</td>
</tr>
</tbody>
</table>

Figure 6: Trends in outsourcing reasons

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Trends in outsourcing areas

In mature outsourcing industries and markets there are not many non-core activities left to outsource. Here, businesses will push outsourcing's boundaries into more core and advanced business areas, such as idea generation and innovation. This will require overcoming structural constraints and pushing internal limits without ceding control over the strategic direction of the company. Those providers who can successfully identify new value-creating arrangements in advanced business areas will seize the advantage towards 2020. To do so, service providers will have to develop new systems-wide perspectives that involve complex relationships with a number of partner organizations and serve, sometimes, as deal architects.

In comparison, Figure 7 highlights the key changes in the business areas and emerging outsourcing focus for the future.

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Current</th>
<th>Emerging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>Management</td>
<td>Strategy</td>
</tr>
<tr>
<td>Peripheral activities</td>
<td>Innovation/intellectual capital</td>
<td>Differentiation</td>
</tr>
<tr>
<td>Single activities</td>
<td>Entire processes</td>
<td>Entire organizations</td>
</tr>
<tr>
<td>Basic needs</td>
<td>Simple problems</td>
<td>Complex problems</td>
</tr>
</tbody>
</table>

Figure 7: Trends in outsourcing areas

Providers must up their innovation capacity to move into such areas as idea generation and innovation. The majority of service providers, however, are not currently capable of providing this service. The reason is two-fold: “First, there is no economic incentive to provide innovation when service providers are bound by a contract. Second, businesses in general are not open to pay for advice on innovation, with the exception of very few industries.”

Service providers will have to deliver new insights in order to achieve heightened performance. This necessitates more coordination and integration of outsourced service areas in order to obtain inspiration and innovation.

The types of challenges businesses face today are becoming increasingly complex and will come to require multiple service providers, all with a high degree of specialization in order to develop comprehensive, competitive solutions. As a result, service providers will have to align themselves with their customers and utilize a more systems-wide perspective.

There are several areas that still have great potential to be outsourced in less developed markets globally, according to interviewed subject-matter experts. These include not only

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things like IT, back-office financial administration and human resources, but also some aspects of product development and FM.\textsuperscript{29, 30, 31}

**Trends in outsourcing arrangements**

Outsourcing relationships and contracts are changing to enable more strategic partnerships. At the same time, some outsourcing relationships are becoming more consumption-based.

In more sophisticated arrangements, service providers will play a greater role in the strategic direction of customers’ companies, and contracts will serve as guidelines.\textsuperscript{29} In this new business environment, organizations will be forced to approach outsourcing in new ways that seek to maximize value, reduce risk and improve their positioning in the market. Contracts will be arranged by deal architects and handled by relationship managers – often with the assistance of management consultants. These contracts will generally tend to operate under a longer time frame as they become more strategic and require greater investment in the relationship. Such contracts will be rewarded according to successfully achieved business outcomes, not on compliance measures.

Towards 2020, local SME providers may not have the sophistication to assist global or national operators. Several interviewed subject-matter experts anticipate that global and national operators will shift towards global and national providers. Operators will package services into regional and global bundles to access available skills, resources and knowledge.\textsuperscript{31}

Figure 8 describes the traditional, current and emerging outlook of outsourcing contracts, agreements, and arrangements.

The best service providers will move to a more collaborative structure fundamentally rooted in equal responsibility, with a high degree of openness and information sharing.\textsuperscript{32} At the same time, contracts are becoming more consumption-based. Client organizations will pay only for what is used. As a result, long-term contractual structures, which guarantee certain service levels, are being increasingly viewed as restrictive and being replaced by a utility, pay-per-use approach that is demand-driven.\textsuperscript{33}

Today, outsourcing is still very much input-based – focused on the number of people employed or the number of transactions going into the process. Over the coming decade, more companies will revise their processes to uncover greater value through more aligned and collaborative arrangements; they will look more towards the outcome-based model.\textsuperscript{29} Outsourcing will be less about compliance and more about equitable partnerships based on mutual trust.

### Figure 8: Trends in outsourcing arrangements

This development is described in Figure 9, which illustrates the progression from input-based service provision towards outcomes.

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Current</th>
<th>Emerging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take over existing assets</td>
<td>Develop new processes</td>
<td>Create solutions</td>
</tr>
<tr>
<td>Pay per input</td>
<td>Pay per output</td>
<td>Pay per outcome</td>
</tr>
<tr>
<td>Specialized provider</td>
<td>Diversified provider</td>
<td>Networked providers</td>
</tr>
<tr>
<td>Single provider</td>
<td>Multiple providers</td>
<td>Symbiotic ecosystems</td>
</tr>
<tr>
<td>In-house</td>
<td>Client organization/service provider</td>
<td>Facilitators/crowd sourcing</td>
</tr>
<tr>
<td>Client organization control</td>
<td>Provider control</td>
<td>Equal responsibility</td>
</tr>
<tr>
<td>Fixed contract</td>
<td>Flexible contract</td>
<td>Partnership agreement</td>
</tr>
<tr>
<td>Low trust</td>
<td>Transparency era</td>
<td>Open organization</td>
</tr>
<tr>
<td>Transactional arrangement</td>
<td>Joint partnership</td>
<td>Strategic alliance</td>
</tr>
<tr>
<td>Request for info/quote</td>
<td>Request for proposal</td>
<td>Request for solution</td>
</tr>
</tbody>
</table>

*Figure 9: Progression of outsourcing arrangements characterized by service targets and measures (Source: RICS Research, 2014)*

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Trends in the impact of outsourcing on employees

Outsourcing has been and will continue to be a disruptive force in the labor market towards 2020. As a result of increasing employee displacement via outsourcing, offshoring and technology development, a more dynamic economy built on freelance talent will emerge. This will challenge our conventional understanding of work and employment in several ways. More employees will be driven by a desire for independence and self-development; others will be forced into the contingent workforce. Employees will have to master learning new skills just before they are needed. Figure 10 below outlines the key trends in the way outsourcing impacts employees towards the future.

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Current</th>
<th>Emerging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job security</td>
<td>Career resilience</td>
<td>Dynamic employability</td>
</tr>
<tr>
<td>Corporate career structure</td>
<td>Self-responsible career portfolio</td>
<td>Freelance economy</td>
</tr>
<tr>
<td>Loyalty to organization</td>
<td>Loyalty to network portfolio</td>
<td>Loyalty to self</td>
</tr>
<tr>
<td>Organization-driven performance mentality</td>
<td>Flexible project-based performance</td>
<td>Self-driven performance</td>
</tr>
<tr>
<td>Organization assesses training needs</td>
<td>Organization provides tools for assessing needs</td>
<td>Individual provides tools for assessing needs</td>
</tr>
<tr>
<td>Organization provides training and development</td>
<td>Individuals develop their skills to stay competitive</td>
<td>Organizations and individuals co-invest in skills development</td>
</tr>
</tbody>
</table>

Figure 10: Trends in the impact of outsourcing on employees\(^{36}\)

In the emerging freelance economy, the dominant employment model will consist of a collaborative, transparent, technology-enabled, rapid-cycle way of doing business through networks and ecosystems of workers who work as “intellectual mercenaries”. Individuals will need to shift from the need for career resilience, which is defined by a distinct set of responsibilities tied to a particular career, to dynamic employability – skills and competencies that can be applied to a range of roles.

The ability of businesses to attract these “intellectual mercenaries” will be fundamental for success in the future. Flexible work arrangements will become increasingly common. The future workforce will consist of a diverse group of full-time employees and contract and freelance talent, with several having no connection to the brand. People will move from role to role and across organizational boundaries more freely than ever as businesses demand talent pools and systems that can be rapidly assembled and reconfigured. Business leaders and customers alike will expect agility, scale, and the necessary skills on demand.

Today, competencies quickly become obsolete, and new competencies must be learned in order to stay ahead. To ensure employability, employees should keep learning all their lives, either at work or by taking time off work to improve their skills. Increasingly, learning is changing from just-in-case learning, where you learn all sorts of knowledge that you might

need sometime in the future, to just-in-time learning, where you learn tools that you will need for an upcoming task.

5.3 Trends in FM outsourcing

FM provides the physical cornerstone for business by providing an ever-evolving array of strategic support processes that integrate real estate, facilities service, talent, and asset management, among other things. There is still significant potential for FM outsourcing over the coming decade, as 68% of survey respondents believe that FM will be outsourced more in the future.37

Likewise, a recent report from AMA Research finds that in the UK, the outsourced corporate FM sector will continue to grow over the next few years, despite approaching market maturity.38 The study outlines that there has been reasonable growth in the sector, with continued growth expected through 2019. Accordingly, the FM services industry has seen improvements in terms of the number of contracts, business confidence levels, and improving economy and good growth in the financial and service sector.38

The report cautions, however, that with around 75% of services within the corporate market already outsourced in some way, and the commercial office and retail sectors approaching a saturation point, growth will depend on expansion.38 These findings rationalize the following trends, which are also becoming apparent in the global market:

- Consolidation of the market: With a greater amount of mergers and acquisitions, the number of large FM providers is growing – focused on winning enough business to fill their capacity.
- New niche specialists: Increased pressures to create efficiencies through both cost and energy savings, for example, will favour specialists with expertise in energy management – providers are likely to become key players in the delivery of energy/carbon reduction.
- Expansion and diversification of service provision: Apart from commercial offices, retail, and entertainment and leisure spaces, expect more activity in other end-use sectors such as manufacturing and warehousing, energy and utilities and privatized transport services.

In addition, FM will shift its focus to supporting talent management, creating dynamic workspaces, and driving behavioral change among employees in customer organizations, while reducing FM’s labor intensity and improving its ability to use data analytics to drive service delivery. In light of the megatrends and the range of trends in outsourcing, there will be increased emphasis placed on personalization and business innovations in FM outsourcing, leading to industry transformation.

Figure 11: Four worlds of service in FM

Figure 11 draws attention to four worlds of service in FM and the shifts taking place towards 2020. The four worlds of service model has two axes:

- **The value dimension**: At one extreme is business efficiency, where the key concern is the efficient management of infrastructure and assets. At the other extreme are business innovation outcomes, where the service being delivered is aimed more directly at business outcomes, added value, and strategic goals.

- **The delivery dimension**: At one extreme we have one-to-one, personalized services aimed at meeting the distinct business challenges and needs of a particular client organization with tailored solutions. At the other extreme is mass customization, where ready-to-use services and short implementation times are the norm. This platform serves intra- and extra-organization operations.

Combining these two axes creates a framework that describes four different worlds of service:

- **Management**: Achieving FM efficiency in a customized environment depends on adopting best practices and optimizing processes or exploiting the scale that a provider can provide. These are one-to-one engagements focused on predictable pricing. A key outcome of management services is the efficient management of custom FM solutions.

- **Maintenance**: Foregoing personalization enables greater use of standardized FM solutions.

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solutions. Evolving toward a utility model, the organization achieves efficiency through scalability, automation and pay-per-use pricing. These are one-to-many relationships based on a rental approach to FM services. A key outcome of maintenance services is leveraging efficient large-scale, mass-customized infrastructure services and utilities and they lend themselves to on-demand outsourcing.

- **Optimization**: This is an emerging hybrid model. It focuses on gaining business improvement through efficiency, speed and agility by leveraging FM services and solutions in a shared environment. These are one-to-many or many-to-many relationships with payment tied to business transactions. A key outcome of optimization services is the optimization of FM solutions and business processes, and multi-client sharing of FM business processes and business service utilities – a networked approach.

- **Transformation**: This service model focuses on creating, designing, or supporting a unique solution so highly customized that the business process is, in effect, transformed. These are one-to-one relationships with payment tied to achieving and supporting business goals; an outcome-based, performance-oriented payment model. A key outcome of transformation services is the transformation of highly customized FM solutions and business processes.

FM outsourcing will move towards transformation services that redefine and shape business outcomes, cultural change, and attraction of new skills within organizations; away from the traditional focus on cost reductions, which has blinded senior business executives to FM's strategic potential. Businesses are beginning to realize the strategic importance of FM in boosting business innovation, since it is integral in all aspects of operations and organizational performance.

FM is central to attracting and retaining employees and optimizing people utility. For example, in the high-tech industry, the management of facilities is key to attracting, integrating and retaining employees. “FM outsourcing has a different tone; it is becoming a key component, and in some cases a driver, of human resource strategy.” Technology companies have become trendsetters when it comes to workplace amenities. In the technology industry, the workplace is moving towards a living office, where different areas of space will be dedicated to a variety of “life-asserting” activities.

Life-asserting amenities, also known as “worktivity” amenities, include areas that fulfill employee needs, such as health, play, consumption, and social interaction. These will be needed and used to keep people at the building. These amenities will be supported by companies’ technology and ICT portfolios, which will include interactive walls, real-time translators and hologram tables, among other things, as attractive amenities. These are

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all FM issues where service providers have an opportunity to add value and strive towards transformative business innovation for client organizations.

Likewise, disruptive technologies and models, such as mobile devices and a growing sharing economy, also present new opportunities for FM service providers. Things like shared co-working spaces (WeWork and Liquid Space, for example) are changing the process of work, and as a result require new, more dynamic facility services that can accommodate a range of infrastructure and other business support needs.

FM outsourcing must support organizations that are becoming more fluid and agile. The physical workplace must be scalable and adaptable, while being space efficient. To accomplish this, the workplace should consist of dynamic spaces that accommodate several work styles (individual preferences and personalities) as well as respect gender, generation, and cultural differences, while meeting the needs of several different assignments or projects. As outlined by one of our interviewed subject-matter experts:

> What I mean with full responsibility for creating workplace solutions, does the FM organizations possess an understanding of the customer side: how do they work, what culture do they have, what sort of regulations do they have, how do their processes work today and how can they work smarter? When you know exactly what these work patterns are, then you can design the services and the workplaces in a totally different way. I haven’t seen a holistic solution like that in the world, but towards 2020 there will probably be a few cases.

FM will play an active role in facilitating positive micro-behavioral change among employees. A better understanding of human behavioral science will continue to inspire employers to push people towards desired behavior through nudging, digital design, and gamification. Together, these elements harness the experiential power of games as a tool that motivates employees to achieve their own goals while supporting an organization’s strategic objectives. Gamification can help to address areas such as employee health, higher engagement and motivation, and lower absenteeism, or sustainability at the workplace – all areas with a huge potential for cost savings.

FM outsourcing in support of the workplace will increasingly be about creating the capacity to control different variables to make the workplace more engaging, fun, rewarding, and collaborative, while improving productivity and efficiency metrics. The FM industry will be transformed to include a more employee-centric perspective. This will be enabled by the Internet of everything and data analytics. More and more data are being gathered about people whenever they work, shop, travel, or use the internet. With

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scores of billions of sensor-equipped devices being connected to the internet over the next 10 years, the amount of data gathered concerning work, the workforce, and the workplace will grow exponentially. Data analysis offers the potential to help companies know their customers better, predict market movements, improve employee performance, and boost efficiency in work processes.

With greater investment in technology, FM service providers are looking to develop smarter ways to integrate and create agile, precise workflow platforms to make service delivery less resource intensive. FM is likely to move quickly towards real-time management and specific workflow management tools designed for global compliance.\(^46\)

Automation will continue to affect the FM industry, allowing service providers to achieve greater scale through more efficient work processes, enabling them to 1) offer mass-customized utility services on the one hand, and 2) offer highly personalized relationship-driven solutions on the other hand. Interviewed subject-matter experts believe: “It will probably have a big effect in the future: we already see robot vacuum cleaners and scrubbers; we see drones starting to be used for visual inspection; and we see apps being used to send information to facility managers.”\(^47\)

Towards 2020, FM outsourcing will work with more advanced, elaborate, and collaborative outsourcing strategies.\(^48\) These arrangements will enable FM providers to reach more strategic business outcomes in a close working partnership with their client organizations. Interviewed subject-matter experts opine: “The need and desire for a human partnership interaction will continue, and that is where opportunities can be brought alive for service providers to really add value.”\(^46\)

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“When something is important enough, you do it even if the odds are not in your favor.”

Elron Musk, Business Magnate
“The only source of knowledge is experience.”

Albert Einstein, Physicist
6. Emerging Sourcing Approaches

Outsourcing is growing more complex to accommodate new market needs. We have identified five emerging sourcing approaches that are likely to change how outsourcing partners will interact over the coming decade (Figure 12):

1. **Crowd sourcing**: The process of obtaining needed services and solutions by soliciting contributions from a large group of people through third party platforms, rather than from in-house employees or service providers.

2. **Solution sourcing**: A form of B2B crowd sourcing, where client organizations solicit solutions and select a partner from a large number of external service providers, placing a strong emphasis on value-based business outcomes rather than cost.

3. **Network sourcing**: An approach to obtaining and delivering needed services and solutions within and between value networks.

4. **Co-sourcing**: A long-term, one-to-one business arrangement wherein business functions are maintained through a combined effort by internal and external partners both with a mutually vested interest in the outcome of the collaboration.

5. **Mesh sourcing**: A highly collaborative, networked ecosystem approach to outsourcing and service provision. Business interests and operations are meshed across several organizations, sharing mutual interest in profit, values and social change.

*Figure 12: Emerging sourcing approaches on the service provider relationship spectrum*
On the one hand, service provider relationships will increasingly be characterized by a collaborative, interdependent approach, and on the other hand, they will be driven by a demand for informal, yet practical and pragmatic solutions that are more transactional in nature. They represent emerging approaches to outsourcing that could gain traction towards 2020 in industries such as IT and FM, where service offerings are becoming commoditized.

These approaches encapsulate the aforementioned developments in outsourcing and FM service provision over the coming decade. The emerging sourcing approaches are not mutually exclusive; many hold several of the same characteristics, but maintain their own distinct attributes.

The emerging sourcing approaches focus on changes and developments in the most mature outsourcing markets. However, they remain relevant for emerging markets just the same. The sophistication of markets and the growth of industries translate to a particular progression of outsourcing; as industry leaders gain more experience with the practice, they will seek to leverage outsourcing in more strategic ways, heading towards emerging sourcing approaches described in subsequent sections.

6.1 Crowd sourcing

The crowd sourcing approach describes the process of obtaining needed services, ideas, or content by soliciting contributions from a large group of people, rather than from in-house employees or service providers. This approach outsources work to a crowd of external workers. More individuals and companies alike are turning towards crowd sourcing or hybrid models to overcome their own limitations. Crowd sourcing is a utility model that allows businesses to plug and play services from a wide labor pool when required, by offering a pay-for-use approach that enables a streamlined process for getting activities completed on demand.

Crowd sourcing coordinates activities and harnesses resources through third party platforms, usually smartphones or other mobile interfaces as illustrated in Figure 13. Crowd sourcing comes in many different forms and is gaining momentum in several different areas. Since the transactions are primarily characterized by proximity, this gives projects and activities greater reach and accessibility to needed labor, talent and knowledge, and allows for real-time responsiveness. Some examples of crowd sourcing include TaskRabbit, EasyShift, Gigwalk, and Uber.

Crowd sourcing can involve division of labor for tedious tasks and respond to specific requests. Crowd sourcing combines the efforts of numerous self-identified volunteers or part-time contract workers, where each contributor, acting on their own initiative, adds a small contribution that combines with those of others (internal or external to the organization) to achieve a greater result; hence, it is distinguished from outsourcing in that the work comes from a more or less undefined public, rather than being commissioned from a specific, named group or service provider.

![Figure 13: Crowd sourcing relationship dynamics](image-url)
Leveraging the power of the crowd takes advantage of the collective learning, knowledge, and labor capacity in a given location. In many cases, it is a smarter, more efficient way to work and get work done by connecting the skills and capacity to fulfil functions in line with the market demand in real time.

There is a growing class of micro-entrepreneurs in this freelance economy that are challenging business models across a number of industries and changing the way procurement is practiced. As more services let people monetize their own assets, labor and knowledge, it is creating a new sector of the economy, where everyday people create content, solve problems, perform tasks, and even do corporate R&D.

For companies who utilize crowd sourcing, it is a compelling approach from an economics viewpoint. It is an approach designed to fulfill businesses’ need for instant gratification in soliciting a service, product or outcome from a large group of individuals in almost real time.

Crowd sourcing maintains a task-based and project-oriented focus that accommodates the emerging rapid-cycle way of doing business, affording businesses a particular degree of organizational agility. It is an approach that fulfills growing demands for fast solutions to simple problems by leveraging the scale of the crowd, so to speak.

Crowd sourcing is a highly transactional approach to procurement; it circumvents many of the formalities associated with outsourcing contracts. It offers a means by which organizations can gain the benefits of outsourcing but avoid the limitations of a conventional outsourcing approach.

Despite the benefits, the crowd sourcing approach has limitations. It works well on smaller projects. On larger medium- to long-term projects this approach fails to make use of the expertise an established service provider can deliver. The risks and values of crowd sourcing are outlined in Figure 14.

Figure 14: Risks and values of crowd sourcing
The central risk of crowd sourcing is that the standards of the provider might not meet the expectations of an organization in terms of quality. Since you must rely on a diverse set of independent contractors, quality standards become difficult to enforce. The rising prominence of the reputation economy, which is an organic social mechanism for ensuring that high-quality, professional standards are met, may help to offset the sometimes anarchic nature of crowd sourcing. This is especially true if the transactions are facilitated through a trustworthy third party. Likewise, more advanced facilitators are also increasingly establishing safety, quality, and liability measures that allow them to compete with major industry players.

**Implications for FM**

The implications of crowd sourcing on FM are many. Commodity services like cleaning, catering and some forms of security could be disrupted. One provider may become the industry’s “Uber” and facilitate service delivery via a platform without ever delivering the services themselves. There is a possibility that some could shift their agreements towards more of a plug-and-play approach tied to quantified consumption rather than outcomes. This could disrupt the fixed-fee contracts that have had a strong foothold within FM outsourcing in particular.

Crowd sourcing currently exists as a potential alternative to conventional outsourcing that can be used to meet the business requirements in on-demand security, cleaning, catering and property management, among other things. These services are prime targets for a crowd sourcing approach, as they are rapidly becoming commodity services that require fewer technical skills and are less knowledge-intensive.

The question is to what extent FM service providers are interested in and willing to embrace crowd sourcing. FM service providers can respond in two ways. On the one hand, commodity services such as cleaning, catering and security can be accommodated by the proliferation of various crowd sourcing platforms, allowing FM service providers to specialize in other areas and focus on more advanced service provision at the strategic level.

On the other hand, FM service providers can seek to embrace the crowd sourcing model and integrate it into their existing portfolio, becoming experts in facilitating such interactions. This would require less investment in labor and enable them to reduce labor costs by contracting the fulfillment of an ordered service through an independent contractor.

As outlined in Case 1, there is a growing market for facilitating a crowd sourced approach to FM services. While the case study focuses specifically on the consumer market, it is a model that is equally applicable to the B2B market. In many respects, the winners will be the intermediaries who establish the rules for engagement and connect client organizations with the FM services and skills they need in real time.
Amazon Home Services: Crowdsourcing

Amazon Home Services (AHS)\(^{49}\) is an example of crowdsourcing in the FM arena. It is a platform providing a one-stop shop where consumers can compare, contact and eventually contract local service providers such as plumbers, electricians, cleaners, tech specialists and other laborers. AHS’s marketplace model streamlines the process of service provision, putting every step on a single access point where a customer is able to choose everything between expensive concierge services offering 24/7 access and professional, low-cost, easy-to-use platforms.

To launch, AHS already had 2.4 million service offers covering more than 700 types of service. Considering the 85 million Amazon customers, AHS has significant growth potential. AHS operates in a similar fashion to Amazon’s marketplace for physical goods. Service providers compete for top billing in a given category through price, ratings and other factors – higher rankings generally lead to better sales. Amazon takes a cut of between 10% and 20% of every service arranged through its platform, depending on the type. Amazon vets the providers through background checks and customer satisfaction audits. It also works as a middleman to help resolve conflicts, maintaining the ability to refund a customer’s money instantly in the case of a bad experience.

AHS puts Amazon in competition with other firms like Angie’s List, Home Depot, Yelp and Groupon that connect customers to services based on ratings. However, Amazon has already established partnerships with existing service providers, including Dish satellite television service, Pep Boys auto-parts stores and handyman marketplace TaskRabbit.

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6.2 Solution sourcing

Where crowd sourcing via third party platforms is not a sufficient approach for more technical, complex activities and processes, solution sourcing offers an alternative. Solution sourcing is a form of B2B crowd sourcing, where client organizations solicit solutions from a number of external service providers (see Figure 15), placing a strong emphasis on value-based business outcomes. While solution sourcing tends to be more collaborative, it still remains largely transactional in execution.

Client organizations will be responsible for setting the direction and allowing service providers to pursue outcomes. Client organizations will rely on the breadth of experience of service providers to develop solutions and carry out projects to a much greater extent than they do now.

Outsourcing in these projects will be less focused on compliance. The challenge will be to put in place the appropriate mechanisms for performance monitoring and needs assessment, and to develop measurement systems to ensure that progress is being made.

Solution sourcing will assist organizations in tapping into the best ideas and resources for addressing increasingly complex business challenges. More and more, client organizations will requisition solutions to predefined or even undefined organizational problems (not distinct activities or processes), leaving it in the hands of the service providers to determine the best course of action with the highest value-added returns. This is in contrast to client organizations providing well-defined approaches for specific activities and processes with precise targets. Thus, at the heart of solution sourcing is the request for solution, diverging from conventional formats such as the request for information, the request for quotation, and the request for proposal.\footnote{To learn more on competitive bidding methods read Vitasek, K., et. al., Unpacking Competitive Bidding Models, White Paper, 2016}

- **Request for information (RFI):** Used to gather information about companies and market conditions in addition to more basic contractual arrangements.
- **Request for quotation (RFQ):** Used to solicit cost and pricing information from potential service providers.
- **Request for proposal (RFP):** Used to define the requirements of the client organization (scope, objectives, services, deliverables, commercial terms, etc.), in order for the provider to develop a proposal for evaluation – the current gold standard in outsourcing.
- **Request for solution (RFS):** Used to solicit solutions to address various business needs and challenges and to define the collaborative approach that will determine the solutions best suited to realize the desired outcomes.

The RFS is often viewed as an emerging approach to innovative outsourcing to overcome the limitations of the RFP process. RFPs are used for evaluating known products or solutions. They
are overly prescriptive and yield little flexibility for the service provider to apply alternative methods and processes, which could lead to a more innovative and competitive outcome. Interviewed subject-matter experts attest: “We have over-commoditized – we have become good at being buyers and bad at creating solutions that generate value for the organization. The realization of having over-commoditized indicates how you will not get value if you do not seek to buy value. Switching service providers will not solve the problem.”

The emerging RFS approach is more appropriate for projects that have a certain degree of ambiguity or that seek a transformation in some way. This approach represents a new way to contract for service providers’ best ideas as described in Case 2.

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Dr. Pepper Snapple Group: Request for Solution

Dr. Pepper Snapple Group [DPS] is one of North America’s largest beverage companies, encompassing more than 50 brands of beverages within differentiated markets. With more than $6 billion in revenues (2014), DPS is a large conglomerate with needs for flexibility, adaptability and scalability.

Over a seven year contractual period, DPS had experienced insufficient value and performance issues from its outsourcing service provider who was contracted to deliver data centre and hosting services (email hosting, servers, storage). Guided by a desire to obtain a competitive, yet flexible and value-oriented sourcing solution, DPS initiated a request for solution process (RFS).

DPS wanted a fast transition and sought to retain financial savings through competitive bidding, to improve reliability and availability through solution-based partnerships, to capture flexibility towards integrating recent technological developments and to mitigate business risk during the transition through transparency and close collaboration.

DPS managed to describe the challenge and review solutions from six providers within only 10 weeks through a process of 1) developing a base case and engage package, 2) determining and contacting potential providers, 3) assisting potential providers during proposal development, 4) evaluating indicative pricing and solution merits, and 5) developing a future-state service management design work plan. As a result, the total time it took to find a partner was 24 weeks.

This process yielded greater insight into the providers’ capabilities and solutions, allowing for a diverse range of solutions and competition to drive down prices. However, the high level of diverse solutions and indicative pricing made it hard to down-select providers. Furthermore, additional clarifications and in-depth dialogue was continually required, and since there was no RFP, the purchasing team had to agree in advance on which types of solution to focus on.

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52 Information Services Group (ISG), Dr Pepper Snapple Group Leverages “Request for Solution” for Flexibility, Agility and Speed to Market, Case Study, 2013.
RFS is used when client organizations are specifically looking to explore a solution for which the answer is not already known. The challenge becomes: How do you define a measure for solutions that have never been pursued? More risks associated with solution sourcing are outlined in Figure 16.

**Figure 16: Risks and values of solution sourcing**

Client organizations will be subject to the risk of conflicts amounting from less rigidly defined contractual measures. To mitigate this risk, client organizations and service providers will have to develop the solution criteria and adopt continuous coordination as a prerequisite for avoiding conflicts of interest and conceptual misunderstandings.

Service providers will retain more flexibility allowing for expertise and innovation to transcend solution propositions. Service providers will have to be accommodating and ensure a trustworthy foundation for collaboration with customers. This will entail developing monitoring mechanisms and penalizing structures, which could undermine the potential benefits of the solution sourcing approach at large.

Solution agreements are based on indicative pricing with uncertain costs, where processes to be carried are not clearly defined. For client organizations, this could lead to hidden costs and higher prices than could be otherwise obtained through more conventional sourcing approaches. It is therefore up to each individual service provider to optimize processes and reduce costs while pursuing novel solutions in an open and transparent way.

**Implications for FM**

As more executives recognize the strategic importance of FM, there is a growing belief that conventional FM outsourcing models are no longer serving their purpose. FM managers are currently struggling to communicate complex outsourcing service requirements to service providers and are looking to alternatives. This is prompting a shift towards solution sourcing – outcome-based, collaborative contracting – in the FM space. As shown in Figure 17, survey respondents overwhelmingly suggest that they are likely to use an outcome-based outsourcing model for FM towards 2020 and beyond.
RFS and other solution sourcing arrangements are well suited for situations in which client organizations are unsure about what they want from the market or how to leverage their facilities or other infrastructure assets in operationally efficient and strategic ways. Solution sourcing is an appropriate approach for innovation processes.

This pushes FM to craft individualized solutions. With solution sourcing, FM providers have the opportunity to demonstrate their capacity to have a meaningful impact on strategic business objectives like increasing efficiency and productivity by streamlining workflow processes and optimizing assets (infrastructure, people, or otherwise).

RFS entails fewer specific requirements and looks to engage with FM service providers and apply their expertise by structuring the agreement around outcomes, rather than the procedure to obtain such outcomes. Solution sourcing could render many conventional prescriptive contracts obsolete.

FM service providers must possess a thorough understanding of client organizations in order to assess their needs more precisely. To do so, FM service providers must be proactive, both operationally and strategically, in supporting client organizations with value-added services, especially as more data and insights are obtained from the facilities.

The evaluation criteria, and thus the relationship dynamics between FM service provider and client organization, will become increasingly characterized by more qualitative measures, taking into account attributes such as cultural integration, trustworthiness, and core values.

FM service providers will be required to focus on investing in particular soft skills and getting closer to their client organizations in order to ensure that service solutions are aligned with more abstract, value-laden business objectives (see Case 3).
Solution sourcing requires an increasingly trust-oriented collaborative approach, which necessitates an open mindset and additional risk willingness among both FM service providers and client organizations.
Nordea: Strategic Synergies

Nordea, one of the largest financial groups of the Nordic Region (Denmark, Sweden, Norway and Finland), has moved increasingly towards a strategic outsourcing structure involving several non-core activities, such as catering, security, cleaning, technical and support services. ISS has continuously increased its cooperation with Nordea, and the partnership now covers all four countries and more than 39 locations. The relationship between Nordea and ISS, attaining to facility services, has a long history (the first contract was initiated in 1976).

From 2013 a significant switch and expansion of the partnership was made towards a more output- and outcome-based focus in the contract. The new realm of the partnership was rooted in a mutual desire to increase strategic synergies and value through increased alignment and expansion of the covered services, but also a desire to create a coherent, motivating and productive working day for Nordea’s employees – the end-users of the services provided. It was seen as a new beginning of the relationship, which required significant changes on both sides in terms of governance structure, structuring of work, innovative solutions, staff training and mentality in general. Focusing on an in-depth analysis of the end-users and the prevailing touch points, KPI structures were developed to address the output through performance and quality.

The output- and outcome-oriented relationship transcended the typical operational focus to a trust-based relationship in which ISS and Nordea now jointly focus on value creation. Through a solidified governance structure, ensuring close communication throughout the entire organization from site to regional and ultimately group-top management level, it is possible to adapt and encompass emerging demands.

All touch points and service dimensions retain specialized emphasis on integrating services and optimizing the total service experience for the end-users. As a result, the increased integration of services has led to an increasing number of innovative solutions and processes and a reduced number of KPIs – from a very large number down to 18. All the while, the structural integration yields way to continuous development of the relationship, an important aspect related to the increased importance of attracting and maintaining talent through functionally optimized and quality-oriented work environments.

6.3 Network sourcing

Network sourcing refers to a sourcing approach that has a long history, but continues to gain prominence towards 2020. At its core, it is outsourcing centered on networks. As outlined in figure 18, it describes three types of interactions:

First, purchasing networks are business consortiums of two or more independent organizations that come together formally, informally, or through an independent third party for the purpose of joining their individual requirements for purchased services to leverage more value-added pricing, service, and technology from their external service providers than could be obtained if each organization purchased the services alone. Here, purchasing networks buy services from a single service provider.

Second, service provider networks are formal or informal business consortiums that give members the ability to leverage a community of industry professionals and experts to help solve any technical or business challenges they are facing in building their business, or to meet the increasingly complex demands of client organizations. The ability to quickly and easily tap into a network of peers offers members unique insights and tools as well as access to skills and resources. Here, single client organizations buy services from a network of service providers.

Third, network to network (N2N) interactions occur when the two consortiums described above engage in the purchase and provision of services.

Towards 2020, the general reorientation of business from supply and value chains to value networks will continue. Value networks are designed to increase access to resources, boost flexibility, achieve scale, and improve service outcomes, while simultaneously applying great cost discipline. For the best-run companies of the future, establishing meaningful contractual relationships with a number of key business partners is likely to become an ever-greater competitive imperative.

This form of collaboration allows for each entity to access more expertise and resources than they would have been able to obtain independently. It permits greater degrees of flexibility and organizational agility by not requiring businesses to invest in and develop certain skills and capabilities internally. Rather, businesses rely on either (1) the purchasing power of a collective group to obtain needed capabilities, or (2) those within their networks that possess such capabilities.

From the perspective of service providers, the network sourcing approach seeks to embrace the division of labor within a particular industry through which organizational specialization and cooperation leads to more efficient outcomes and growth. Networks go beyond immediate partners and stakeholders. Each relationship, or node in the value network, constitutes a connection to a partner/stakeholder and, in turn, their network.

Figure 18: Network sourcing relationship dynamics

Innovation can prosper under networks through this added level of flexibility and transparency. Businesses simply must learn to open up their organizational boundaries. Many are working towards long-term trust- and benefit-based relationships with key partners, placing emphasis on mutually rewarding arrangements. These relationships are regarded as a way to inject new ideas into the commercial space and experiment or prototype with alternative solutions.

While a networked approach to outsourcing and business more generally has been demonstrated in many diverse ways, the advantages continue to be lauded towards the future. Value networks will likely continue to manifest in new and different ways. However, network sourcing does not come without risks, as described in Figure 19.

There are several challenges associated with value networks that must be taken into consideration and overcome. For one, network sourcing can increase the risk of a debilitating dependency, locking businesses into a rigid structure, not well suited to dealing with a fluid and changing contextual or transactional environment. Likewise, the contextual factors need to foster a business climate conducive to more sophisticated partnerships. As interviewed subject-matter experts explain: “How do you evaluate a corporation that has no boundary? What are their assets, and how do you include the assets of the company you outsource to or are networked with as a part of your assets versus liabilities?”

The reservations businesses hold towards network sourcing are owing to unfamiliarity with establishing and subsequently managing value networks. For many, sophisticated network arrangements entail a risk of losing control and uncertain rewards.

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Implications for FM

For FM, there lies significant potential in network sourcing. First, there are opportunities for FM service providers to develop the “Star Alliance” of FM providers – a cooperation agreement between two or more FM providers. This offers an extended network with increased access to expertise and needed services in support of operational FM activities and future-driven innovation; it boosts the innovative capabilities of FM service providers by linking them with relevant, more specialized members.

Value networks enhance the competitiveness and market reach of participants. They could improve the relationship dynamics within the industry by integrating service providers with subcontractors and others in the supply and procurement chain. There are also cost savings to be realized by member organizations through the sharing of knowledge and resources (offices, maintenance facilities, operational staff, capital for investment and volume discounts on supplies, etc.) This has the potential to improve service quality, aiding in the ability to provide a world-class service for client organizations and a distinguished experience for end-users.

Interviewed subject-matter experts support this finding, as large contracts with single service providers are becoming less and less common. There is growing comfort among client organizations in having a wide composition of processes run by a number of large, global and networked service providers through a central office (see Figures 20 and 21).

Figure 20: Number of FM service providers expected to be used by 2020 (see appendix)

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Network sourcing in FM signals a shift from primary offerings towards a focus on value-added services and new revenue-generating activities. FM service providers’ value proposition will be defined by their network collaborations and their position within such networks. It is here that contracts and relationships between businesses and FM service providers can increasingly be valued by each actor’s network and relations to other organizations and contractors by whom differentiated value-oriented services can be provided. Contracts between businesses and FM service providers will be increasingly characterized by the potential to leverage contacts and relationships stemming from the agreement.

Members, particularly FM service providers, can obtain a reputational boost through demonstrated reliability and co-branding in the B2B services industry through network sourcing. The importance of the brokerage role is also relevant for network sourcing, where alliance architects will become increasingly prominent. It is a substantial task to facilitate a network with a diverse range of members, varied interests, several properties, employees and other assets, and to ensure that there is some alignment. There will be new service opportunities for FM providers to facilitate the seamless integration of multi-organization networks.
6.4 Co-sourcing

Businesses are increasingly seeking outsourcing approaches with a high degree of trust, close cooperation, increased strategic alignment, shared risks, shared value and greater knowledge exchange. Co-sourcing is an approach through which organizations seek to mitigate risks and generate new value that can be converted to sustainable competitive advantages.

Co-sourcing is a long-term, one-to-one business arrangement where business functions are maintained through the combined efforts of internal and external partners where both have a mutually vested interest in the collaboration’s outcome. In practice, co-sourcing refers to a partnership in which the asset manager and the service provider create workgroups and processes providing customized support across various business functions. This is delivered over at least a three to five-year timespan. In this relationship, co-sourcing partners form an interdependent relationship.

While every project is different, co-sourcing assumes that business interests are aligned between both parties, and that there is a substantial level of operational and managerial integration (Figure 22).

In order to realize growth in a slowed global economy with hyper-competitive markets, there is a need among organizations for strong differentiation and hyper-specialization. Businesses are willing to relinquish control over some business areas to focus on enhancing their competitive advantage and to collaborate with relevant partners in order to co-create new value. Interviewed subject-matter experts highlight the emphasis on relationship-based outsourcing:

*A lot of it comes down to the importance of relationships, more than ever before, across organizations. The service providers and the top management of client organizations truly are partners. Customers aren’t customers, but partners. The ones who can do this well are the ones who are going to be successful.*

Accordingly, when pursuing a collaborative arrangement with flexibility, the goal should be to create competitive advantage through the relationship. By investing in the partnership, the service provider is investing in the client organization – this builds trust in the partnership over time.

The service provider is motivated to create value for the client organization because they are partners – they have a long-term relationship and thus incentives in their contract to create value. This collaborative approach to service provision fosters a mutually beneficial, win-win relationship dynamic within the framework of the agreement. Ultimately, co-sourcing...

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allows for both parties to receive greater value (financial or otherwise) and retain less risk, as outlined in figure 23.

![Figure 23: Risks and values of co-sourcing](image)

The central risks and disadvantages associated with co-sourcing are mostly related to the long-term nature of this type of arrangement. Co-sourcing arrangements can take substantial time to establish since they require complete alignment. As a result, both the client organization and the service providers run the risk of poorly defined outcomes, high costs and decreased business agility.

As with traditional partnerships, the mutually vested resources and engagement in the process can result in poorly defined expectations and thus outcomes.

However, with the right commitment from both parties, co-sourcing is a desirable model for outsourcing that can prompt creative insights, spur innovation and ultimately yield value-added returns. What is needed, to a greater extent, is more emphasis on structuring the deals in a way that reflects the nature of the engagement. We are beginning to see much smarter contracting – using contracts to establish a framework for genuine partnerships rather than a baseline document describing what needs to be done. Having both sides more vested in the arrangement turns the contract into a mechanism that will drive innovation, where challenges can be resolved without penalty clauses.  

**Implications for FM**

Co-sourcing is a relevant approach in the provision of FM services. Subject-matter experts believe that FM service providers will play a greater role in enabling companies’ strategic direction. For instance, FM providers will collaborate much more closely with client organizations, on larger, more strategic projects in which their efficiency or inventiveness will be rewarded accordingly. Further, “**they will be responsible for co-funding improvement projects going forward and FM suppliers will get rewarded for the value these projects bring**

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to the client. We do not see that today that often, but this will be more common,” explains one interviewed subject-matter expert.\textsuperscript{61} 83% of survey respondents agree that mutually beneficial relationships with FM service providers will be important to consider as part of the sourcing proposition in 2020 (see Figure 24).

Businesses will look to leverage the cumulative competencies of FM service providers. With their specialized knowledge and tailored insights into asset management and facility usage, FM service providers are well positioned to participate in co-sourcing. FM service providers will become key partners for organizations looking to become more data-driven in terms of optimizing workflow processes and managing sustainable operations. FM service providers will be able to capitalize on new revenue-generating opportunities by offering businesses more value-added services and solutions within highly collaborative, vested co-sourcing arrangements (see Case 4).

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure24.png}
\caption{Importance of mutually beneficial relationships with FM service providers in 2020 (see appendix)}
\end{figure}

In 2012 Novartis, one of the world's largest multinational pharmaceutical companies, sought to leverage more innovative capabilities and ideas from its partners. Novartis looked for partners to consolidate non-core activities and provide solutions to operational sites on a global scale.\(^{62}\)

ISS won a five-year continuation of the contractual bid with provision of services starting in the DACHS countries (Germany, Austria, Switzerland, Slovenia). The former sub-regional partnership quickly expanded in scope and scale incorporating countries such as Greece, Portugal, Israel and sites in Belgium, becoming a fully fledged regional deal.

With Novartis undergoing a restructuring of real estate and services operations, the partnership progressively moved towards giving ISS decision-making privileges regarding budgets, service levels and how to perform the services. This created a collaborative platform, which entailed a move away from a complex KPI structure (more than 26 monthly KPIs) towards an outcome-oriented approach. Instead, three overarching performance indicators and criteria were developed as the framework for the relationship. ISS were to provide 1) non-business interrupting compliance, 2) increasing customer satisfaction 3) continuous savings. The means to achieve this were provided to ISS, who were responsible for coming up with innovative and sustainable solutions. Rather than specifying how and what to achieve (input and output oriented), ISS were to make sure that these three overarching indicators were achieved at all times. In turn, the incentive structure accommodated extraordinary solutions with additional payments. These were anchored in close cooperation, engaged governance and collaborative definitions of the partnership framework.

The collaboration was based on a high degree of trust between the parties. The capabilities to deliver equal standards of quality across all sites, regardless of site differences and the global context, were key. Consequently, the partnership formulation and collaboration focused on strategic and value-driven integration.

Drawing on aspects from the vested outsourcing approach, the partnership steered towards strategic consolidation with all Novartis’s partners and gathered everyone on the same side of the table. The resulting governance structures and coordination flows ensured alignment of interest and efficient outcomes from on-site level to the global level. This allowed Novartis to develop the main budget and outcome framework driven by on-site demand, while allowing providers to decide on appropriate solutions and tools.
6.5 Mesh sourcing

Mesh sourcing refers to a hyper-specialized integrated business environment connected by mutual interest in things like profit, values and social change. Today and in the future, organizations operate in a more complex world. They compete and cooperate in innovative and unexpected ways; they need each other not only to thrive, but also to merely exist. This is the new world of mesh sourcing. Mesh sourcing represents a highly collaborative, networked ecosystem approach to outsourcing and service provision. Business interests and operations are meshed across several organizations to the extent that there is no longer a distinction between outsourcing and standard business practice.

It is an interlaced, self-sustaining structure of competition, collaboration and transactions with each “node” in the networked ecosystem representing an organization that acts as both a buyer and a supplier, simultaneously. Value is exchanged at different junctions between relevant parties as it relates to a specific business proposition. At its core, mesh sourcing is characterized by a particular dynamic embeddedness, based on several multilateral agreements between interconnected organizations across multiple industries that depend on each other for mutual survival.

Figure 25 outlines the systematic interconnectedness that encompasses the indirect relations embodied in the mesh sourcing approach. While you have strong direct relationships, these yield entrance to further actors within their network. A meshed network is thereby not a one-one-one relationship, but rather a complex system of interdependent parties with a vested interest in the success and profitability of one another.

This is an emergent approach to sourcing where more organizations are looking for new and innovative ways to integrate in order to yield the greatest value and most sustainable returns. It is a matter of creating interdependencies and interconnectedness between industries and markets to become more innovative, efficient, and sustainable.

Sourcing needs are exclusively fulfilled through the capabilities and capacity of the ecosystem. This approach will come to dominate the majority of B2B interactions in many ways, ultimately redefining the conventional market approach and establishing a new normal.

Business ecosystems are composed of diverse, interdependent actors that interact with one another in a shared environment. Unlike value networks, however, these systems are founded on functional differentiation and a degree of mutual dependency, with actors both competing and collaborating to create innovative solutions and share scarce resources. The aggregated resources and capabilities embedded within the system are defined by the entities within it, but also come to define the entities themselves.

With increasingly complex measures of value that focus on outcomes, rather than inputs and outputs, the role of ecosystem collaboration has increased. This is predicated by a focus on acquiring skills, resources, innovation and capabilities. Since “companies want to focus more
on their core competencies”, they will look to become more functionally differentiated to retain the most value and the largest degree of competitiveness.

Interviewed subject-matter experts view this as a key motivational driver of mesh sourcing: “If you are contracting with an outsourcing service provider, the value amounts from the cutting-edge expertise”. As business growth requires an increasingly progressive and collaborative mindset, embracing the central tenets of the ecosystem approach will become a business imperative. Under such conditions, mesh sourcing allows companies to focus on the processes related to their core competencies while ensuring that remaining business areas are serviced at a high standard by others in the ecosystem.

The creation of value will no longer come from within a business, but, rather, from a coordinated approach to developing value-added outcomes by pooling the best talent, capabilities and ideas within a system. Businesses can work together to leverage idle assets that offer mutually beneficial, system-wide outcomes by pursuing greater vertical and horizontal integration with others. This describes a collective movement towards smart and sustainable systems based on the active participation of a large group of interdependent actors with a relatively high degree of trust and transparency, as outlined in the following case.

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Kalundborg: Denmark’s Most Intelligent Energy City

The municipality of Kalundborg has long been a frontrunner in applying state-of-the-art mesh sourcing and network integrated solutions for local resources. Kalundborg Symbiosis constitutes an example of such an initiative, transcending the idea of functional differentiation and specialization, leading to greater and more efficient outcomes through collaboration and the sharing of scarce resources. Kalundborg Symbiosis is the result of a long-standing initiative since the late 1970s. Described as an industrial ecosystem, the “waste” products or excess resources from one organization are transferred/sold to another, in a closed circuit. Organizations exchange resources to optimize economic as well as environmental efficiency. Typical refractions include steam, dust, gas, heat, mud/ooze and other resources that can be physically transferred from one entity to another. For instance, organic waste from the biotech company Novozymes is applied as fertilizer in agriculture within the municipality, and smoke from DONG Energy is transformed into plaster at Gyproc.

Drawing on each other’s specialized capabilities and resources, the initiative in Kalundborg highlights several aspects of mesh sourcing. Placing the value of integrated networks and external relations at the core of business allows companies to collaborate across increasingly fluid organizational boundaries and achieve more efficient and high quality sustainable outcomes.

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Mesh sourcing describes an advanced approach to outsourcing, rooted in smart, symbiotic relationships, but it does not come without risks. As outlined in Figure 26, these types of arrangement are highly complex and thus difficult to manage. Businesses will be required to reflect on their organizational needs and the degree to which they are willing to accept the risks associated with business ecosystems in order to realize the benefits.

**Figure 26: Risks and values of mesh sourcing**

- **Values**
  - Increased access to services
  - Spurs innovation/creation
  - Sustainability
  - Consistent service standards

- **Risks**
  - Complex to manage
  - Unclear responsibilities
  - Loss of control
  - Lack of responsiveness to change
  - Dependency

Businesses are quite conservative when it comes to such highly integrated partnership models. Being so complex, the responsibilities of each engaged party in a mesh sourcing approach can become unclear, making it difficult to measure outcomes and trace accountability. Not only are they difficult to manage in this respect; they also place businesses at risk of losing control of certain aspects of their business by developing a dependency, ultimately leaving them unresponsive to change.

**Implications for FM**

FM service providers can establish themselves as significant strategic partners and actors in different organizational ecosystems through an openly collaborative and value-driven approach. As a result, FM service provision will increasingly be evaluated according to more strategic KPIs, survey respondents indicate (see Figure 27).
The role of FM service provider will not only be limited to servicing a meshed network, but will also see them embedded within the system as active participants, buyers, and collaborators. More complex service requirements and value-oriented measures make the close-knit relationship between service providers and buyers in an ecosystem approach more diverse.

FM service providers will be required to take on the role of network architects who are responsible for facilitating interactions and optimizing the movement of people, information, and objects across organizational boundaries. As network or alliance architects, FM providers will assume the management of competencies, assets, and operations in an open, embedded environment that transcends the traditional boundaries of business. Interaction among suppliers and buyers will be characterized by increasingly smooth and collaborative arrangements, enabled by FM with the appropriate facility or infrastructure response. According to interviewed subject-matter experts:

*Established companies and new ventures need to engage themselves in thinking strategically about the ecosystem in which they exist, their place within it, and how to develop and cultivate relationships with its other members. To be fruitful, strategic thinking has to address these fundamental issues while overcoming organizational and other barriers to a firm’s evolution.*

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FM providers will shoulder greater responsibility, which in turn will generate higher returns and more efficiency for the supplier as well as the buyer. Why should FM be restricted to cleaning floors, when a field such as human resource management and attracting the best talent becomes increasingly dependent on workplace management? Fully integrated workplace management solutions could become an integral part of the industry, optimized through close relationships in which the value of the end result transcends the short-term focus on KPIs, quarterly budgets and micro-management. The emergence of mesh sourcing arrangements inevitably requires new, smarter contracting in order to boost trust, drive innovative collaborations and establish meaningful relationships focused on achieving outcomes, not business output.
“A satisfied customer is the best business strategy of all.”

Michael LeBoeuf, Businessman
7. Recommendations

With the growth of outsourcing at the strategic level and within innovation towards 2020, there is more at stake – profitability, market position, sensitive intellectual property (IP) and other data, supply chain and vendor relationships, and talent. Determining the right course of action requires that organizations reflect on how they want to use outsourcing through an internal audit and evaluation of the risk profile and value-creating potential of a specific function. At the same time, successful outsourcing, especially with emerging sourcing approaches, necessitates an investment in relationship management and a thorough transition process. The following chapter highlights these five key aspects for organizations to consider as they pertain to the future of outsourcing and its practical implementation today.

7.1 Self-evaluation

As outsourcing grows in importance as a strategic consideration, executives and FM managers will have to undertake pragmatic self-evaluation to determine the sourcing approach that best meets their organizational needs. The increasingly integral role of FM necessitates a more nuanced look at the risks and values associated with outsourcing for any given process or activity. Organizations should think about where their competencies lie and where their potential for differentiation resides when considering outsourcing.68

Outsourcing is an undertaking that must be aligned and embedded within an organization’s vision and must contribute to the strategic, management and operational objectives derived from said vision, within a given time horizon. Figure 28 illustrates three angles that organizations and decision-makers must consider when they want to use outsourcing.69

Outsourcing as a strategic tool
- Outsourcing focused on supporting and actively contributing to the company’s long-term strategies through alliance-type arrangements. Outsourcing primarily resides at the organizational level.

Outsourcing as a management tool
- Outsourcing designed to move an organization away from vertical integration and self-sufficiency towards a business structure that allows for more focused investments in areas that offer competitive advantages. Outsourcing primarily resides at the business process level.

Outsourcing as a tactical-operational tool
- Outsourcing driven by a desire to solve a practical problem in order to achieve a net gain in operational efficiency. Outsourcing primarily resides at the functional activity level.

According to interviewed subject-matter experts: “If there is a worrisome part of outsourcing and its role in business strategy, it is the lack of evaluating and truly recognizing the immense

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value of outsourcing as a strategy to change the shape of a business, but seeing it as a mere tactical transaction with a myopic view of its benefit.  

Therefore, the decision to outsource necessitates an internal audit in order to maximize value, especially when employing outsourcing as a strategic tool. Outlined in Figure 29, there are three tiers of business outsourcing. For example, functional activities can refer to cleaning and catering or recruitment and payroll; business processes can refer to facilities management or human resources management; organizational strategy refers to business-specific strategic objectives such as vision, mission, partnerships and investments. Interviewed subject-matter experts explain:

There is absolutely no aspect of business that cannot and should not be considered for outsourcing. But every business needs to understand what the value is to them of outsourcing certain things. Where do they create their unique competitive advantage? How do they create that? They need to understand that, because that is what the marketplace is buying. What it really comes down to for every business is to understand what and where they expect to gain their unique competitive advantage in the future and how the use of outsourcing enables and supports that decision.

Organizations should not think about core or non-core activities and processes, but rather where their competencies lie and their potential for differentiation resides. Businesses must consider what they have the ability to do in-house and what renders a potential competitive advantage and, likewise, a competitive disadvantage through either outsourcing or insourcing. Organizations will have to figure out how they can really differentiate themselves, whether it is a core activity to their business or not. In some cases, simply owing to scale or expertise, partners can do a better job than they themselves can, even if it is essential to their business.

As part of their self-evaluation of internal competencies, executives and FM managers should ask themselves the following three questions:

1. If we were starting from scratch today, would we build this capability inside the firm or outsource it?
2. Are we so good at something that others would hire us to do it for them?
3. Is this an area of our business where we would expect our leaders to come from?

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If the answer is yes to all these questions, then this is an area of competitive advantage. If the answer is no to any of these questions, executives and FM managers should look towards what external service providers have to offer.\textsuperscript{76}

### 7.2 Relationship management

No matter the approach taken, the utility of outsourcing as a tool or how organizations wish to leverage outsourcing, towards 2020 and beyond, there must be a greater emphasis on relationship management. This involves investing in building strong, stable relationships with trusted partners and collaborators through a carefully structured process to develop a sound commercial and operational service delivery model that will provide the foundation for successful ongoing relationships. To achieve this aim, managers within client and provider organizations should use formal and informal mechanisms to steer performance in the desired direction.

Successful relationship dynamics include a high degree of transparency, knowledge sharing, open communication and clear expectations for the outcomes of the arrangement. This requires developing consistent operational delivery and management routines as well as data collection that support clients’ organizational goals and strategies and take local conditions into account.

From this knowledge base and shared platform of understanding, parties can become vested in the outcome (sharing both risks and value) and be willing to engage in constructive discourse that furthers the innovation of a given solution, creating a process of co-creation.\textsuperscript{77}

Co-creation is a process or method for developing innovative solutions through a process of trial and error. This is a process of collaborative problem-solving among people who have different expertise and different points of view. In this process both parties must be willing to learn by doing because as work becomes more creative and innovative, there tends to be an increasing number of mistakes and missteps that rely upon a strong relational foundation to overcome in order to ultimately reach the desired outcome.\textsuperscript{77}

### 7.3 Risk mitigation and value creation

The decision to outsource inevitably entails an evaluation of the risks and value associated with a given sourcing approach or model. Businesses should look to maximize value while minimizing risk when engaging in an outsourcing arrangement, by considering the risks and value associated with the people, processes and sometimes the systems involved.

When risks are comparable to the value for a given activity or business process, you have reached a consideration point – outsourcing at this time should be considered as a viable alternative to keeping the activity or business process in-house. When the value of outsourcing

\textsuperscript{76} Corbett, M.F. \textit{The Outsourcing Revolution: Why It Makes Sense and How To Do It Right}, 2004.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Risk</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>• Loss of control over business decisions</td>
<td>• Improves company focus, giving greater attention to differentiator</td>
</tr>
<tr>
<td></td>
<td>• Loss of knowledge and security protection, especially over IP and other sensitive data</td>
<td>• Ability to obtain resources not available internally</td>
</tr>
<tr>
<td></td>
<td>• Future changes in the service provider’s business</td>
<td>• Acts as a catalyst for change and spurs innovation by highlighting areas for improvement.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Invigorates business by converting sluggish areas into dynamic, successful ones and stimulating internal pride</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Initiates cultural change by educating people about creative service delivery options</td>
</tr>
<tr>
<td>Operational</td>
<td>• Impact on transferred, terminated and retained personnel, and lack of capable staff</td>
<td>• Provides access to world-class capabilities</td>
</tr>
<tr>
<td></td>
<td>• Difficulties associated with integrating business processes and degradation of supplier team focus</td>
<td>• Frees up internal resources for other purposes</td>
</tr>
<tr>
<td></td>
<td>• Failure to deliver and methods for dealing with poor performance</td>
<td>• Accelerates re-engineering benefits</td>
</tr>
<tr>
<td></td>
<td>• Potential of legislative and regulatory compliance requirements to impact business operations</td>
<td>• Generates solutions to complex problems and interdependencies</td>
</tr>
<tr>
<td></td>
<td>• Failure to properly execute business continuity/disaster recovery</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Greater need to build new skills and/or infrastructure as required</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Micro-management that hinders productivity, efficiency and overall outcome</td>
<td></td>
</tr>
<tr>
<td>Results</td>
<td>• Challenge in synchronizing deliverables and expected results</td>
<td>• Improves quality, improves service and offers greater flexibility in terms of service delivery</td>
</tr>
<tr>
<td></td>
<td>• Failed transition owing to poor change management strategy</td>
<td>• Boosts business agility and speeds up time-to-market</td>
</tr>
<tr>
<td></td>
<td>• Governance and the ability of the organization to manage collaboration with the provider to achieve the intended benefits</td>
<td></td>
</tr>
<tr>
<td>Transactional</td>
<td>• Failure to define termination clauses, both for cause and convenience</td>
<td>• Shares risks</td>
</tr>
<tr>
<td></td>
<td>• Failure to agree on dispute resolution, liability, indemnity, warranties, asset transfers, IP ownership and payments</td>
<td>• Stimulates critical business analysis because of documentation of processes and costs</td>
</tr>
<tr>
<td>Financial</td>
<td>• Hidden, unplanned or rising costs</td>
<td>• Reduces and allows for greater control of operating costs</td>
</tr>
<tr>
<td></td>
<td>• Significant use of cash for investments to add functionality and/or assets</td>
<td>• Provides a cash infusion and increases cash inflow</td>
</tr>
<tr>
<td></td>
<td>• Maintaining planned governance and retained costs</td>
<td>• Makes capital funds available with less need for capital investment</td>
</tr>
</tbody>
</table>

*Figure 30: Risk and value in FM outsourcing*
“Only those who will risk going too far can possibly find out how far one can go.”

T.S. Eliot, Poet
outweighs the risks, you have reached a decision point – the decision to outsource should be taken at this point. If the value far exceeds the risks associated with outsourcing a particular activity or business process, you have come to a compelling point – organizations should be compelled to outsource by overwhelming logic alone.

Once risks and value have been determined, it is necessary to explore and test the viability of different sourcing approaches and models. The idea is to individually assess each functional activity or business process in relation to its potential risk or value. As outlined in Figure 30, there are five nodes of risk mitigation and value creation that can be used in assessing the viability of emerging sourcing approaches related to specific activities or business processes. Does this approach fulfill our business objectives?

7.4 Change management

With outsourcing comes change. It is an opportunity for organizations to reform, or even transform work processes and flows, and for service providers to demonstrate that they can deliver the value and solutions they promise (see “The sales to operation process”, Figure 31). Without an effective change management process led by a strong, united leadership, sharing and actively communicating the new vision to a wide group of stakeholders, the process could disrupt organizations and negatively affect employees, the quality of service delivery, customers’ supply chain, the execution of business tasks, and organizational culture.

As outsourcing evolves towards 2020 and beyond – becoming more complex, strategic and relationship-based – it necessitates participation from a larger number of stakeholders. This in turn makes change management an important dimension of the outsourcing process.
A sound change management approach that formulates a clear vision and success criteria before changes are communicated and enacted is essential for success. This vision is disseminated through an interrelated process of communication, coordination and cooperation:\(^{78}\)

- **Communication**: Addressing clearly and continually why change is occurring and when and how it will happen.
- **Coordination**: Planning that allows the provider and the customer to understand what will happen, when it will happen and who will be involved during the various stages of the transition and change management process.
- **Cooperation**: Creating a shared sense of a team where all stakeholders are vested in a successful outsourcing outcome.\(^{79}\)

Without a robust change management process, however, the outcomes of the outsourcing collaboration are more likely to fail. The most common reasons are a lack of formalized change management processes, poorly coordinated and engaged leadership, resistance from employees, low priority, no cooperation with the service provider(s), poor planning, and poor integration with the project management programme.\(^{79}\) Despite no universal template for such a process, Kotter’s eight-step model offers a comprehensive guide that addresses all elements of the change management process:\(^{79}\)

1. **Create a sense of urgency**: Make it clear that the change project is necessary for the continued growth and prosperity of the organization.
2. **Form a powerful change management team**: Include senior executives, people with strong leadership competencies (communication and project management), and senior representatives from the service provider.
3. **Create a vision for the change with clear success criteria**: Inspire and motivate people in a clear and concise way that describes real impacts.
4. **Communicate the change**: Inform others of what the process entails, including expectations.
5. **Empower employees**: Remove obstacles, recognize and reward employees and change structures and processes to align them with the new vision. Get employees involved to avoid resistance.
6. **Generate short-term wins and celebrate them**: Develop short-term milestones that aid in maintaining and building the change momentum.


7. Consolidate gains and produce more change: Reinforce new practices and behaviors in order to entrench them – spread success stories, create a best practice guide, promote change agents and reward facilitators.

8. Anchor the change in the corporate culture: New practices become more effective the more aligned they are with the vision and culture of an organization.

**Transition, mobilization and transformation processes**

With the growth of outsourcing at the strategic level towards 2020, there is more at stake – profitability, market position, sensitive IP and other data, supply chain and vendor relationships, and talent. Indeed, all stakeholders (client organizations, employees, and service providers) benefit from a world-class transition management process that can mobilize actors and enable a transformative change. Effective transition management will assist employees in moving seamlessly and quickly through the four psychological phases of a transition (shock and disbelief, resistance and frustration, transformation, embracing and trying), whereas poorly executed change strategies will do the opposite.

A successful transition process can take productivity and job satisfaction to a higher level than prior to the outsourcing process. This requires that:

- The management and project teams understand the framework and transformation process
- A benchmarking process is implemented and identifies areas for improvement
- Teams prioritize areas for improvement
- Action plans are developed
- Changes are locally embedded.

Research from ISS, which includes interviews with recently outsourced employees, concludes that there are 10 best practices that any robust transition plan should include and every transition manager should be aware of. Accordingly, the 10 steps require a commitment from the client organization and the service provider in addition to good transition management skills. These 10 best practice transition activities fall into four categories: project planning, communication, psychology (or people management) and job design. The 10 best practices are:

1. Follow a clear and robust transition plan: The process must be planned well in advance of the opening initiatives.

2. The first meeting is very important: Employees will embrace or reject the process to varying degrees, depending on how it is introduced.

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“A man may die, nations may rise and fall, but an idea lives on.”

John F. Kennedy, Statesman
3. Communicate, communicate, communicate: Use honest, plentiful, and meaningful communication during the transition process.

4. The social aspect matters: Maintain opportunities for social networking among employees.

5. Identify key people and concentrate efforts on them: Focus on people with important knowledge, people with formal decision-making power and people with informal influence.

6. Increase in job scope must be handled especially carefully: Being thorough increases productivity in multi-skilling – expand job roles to increase flexibility and cut costs.

7. Bridge the culture gap between employees and the service provider: Successful relationships hinge on how well the cultures of client organizations and services providers can integrate.

8. Overcome resistance as soon as it is observed: Being prepared to overcome obstacles will limit resistance.

9. A dedicated transition team is an ideal solution: Take responsibility for designing the transition plan and ensuring that the people side of contracts is addressed.


7.5 Innovation outsourcing

For the FM industry, there lies significant potential in innovation outsourcing towards 2020. However, it remains one of the key challenges, despite great strides over the last decade. In the future, pressures from competitors within the industry and exceedingly higher demands from client organizations will render service innovation a must for FM providers. As such, successful innovative service providers tend to share four characteristics:  

1. Have solid innovation processes

2. Have established an innovation culture

3. Have visible innovation champions at all levels

4. Use an optimal mix of internal and external knowledge sources.

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This should be kept in mind when assessing potential service providers if progressive, innovative service solutions are being sought in the market. Likewise, three separate innovation processes should be used to optimize the total innovation potential: 82

1. Management of best practices: Identifying, collecting, conceptualizing and implementing practices throughout the organization.

2. Site-level innovation: Small incremental innovative initiatives close to the customer.

3. Top-down driven innovation: A focus on larger transformational change based on strategic trends in the market.

In an accelerating and increasingly complex and hence competitive business environment, organizations should seek to build innovation capacity into their outsourced services portfolio in order to potentially achieve a greater degree of market differentiation. The benefits of outsourcing service innovation include increase in the quality of service, reduced costs, higher employee satisfaction and improvements in health, safety, and environmental measures, as well as sustainability.

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“Success is not final, failure is not fatal: it is the courage to continue that counts.”

Winston Churchill, Statesman
8. Conclusions and Final Remarks

When making the decision to outsource with one of the five emerging sourcing approaches, businesses should avoid the “outsourcing paradox”, insourcing activities or business processes that have become extremely valuable to the organization. Businesses should not seek to maintain an outsourcing relationship that is characterized by micro-management. They should trust in their service provider to act in their business interests with innovative sourcing models.\textsuperscript{83}

Likewise, if businesses fail to unlock the full potential of outsourcing, they should not promptly insource; rather, interviewed subject-matter experts suggest that businesses should change the way they outsource, exploring emerging approaches and new models.\textsuperscript{83} Harnessing the power of outsourcing requires deploying it strategically through emerging sourcing models. Businesses can gain skills and systems that enable them to attain “best in world” levels of value delivery in their respective industries and for end-users.

While new sourcing approaches unlock new possibilities, new challenges will arise, requiring a demand for new management skills, behaviors and processes to achieve value-based outcomes and sustained business growth.

Towards 2020, organizations need a combination of growth, speed and cost management – supported by business agility in order to remain competitive. They cannot rely simply on cost reduction or the use of tactical sourcing to achieve these business imperatives. Emerging sourcing approaches and new service areas will create opportunities for improvement. To be clear, there is tremendous variation in how lead organizations engage in outsourcing arrangements. The structure of outsourcing arrangements varies along three key dimensions: control, embeddedness, and formality.

Over the past several decades, the process by which businesses acquire the skills, resources, innovation and capabilities needed to be successful in the market has been transformed. The continued growth in outsourcing, specifically related to strategic FM, has represented a realization that companies need to think of their organization not as a business but as an ecosystem. The ability to provide value to end-users does not come from the capability within the business, but from the ability to put together the best talent, capabilities and ideas, which often come from the outside.84

We are now in a world where service providers – especially in FM, owing to the changing nature of work as a strategic leverage point for businesses – are fully integrated within the client organization. This will require more collaborative and less contractual measures, taking into account the level of formality, control and embeddedness that is required to achieve favorable business outcomes.84

Value generation will emerge from the integration of diverse and fragmented interests, processes, and systems. It is here that outsourcing, specifically FM outsourcing, will drive future business success. FM service providers will increasingly come to occupy a central position in supporting the activities and business processes of organizations through usually intellectually-based service activities or systems. Being able to coordinate and facilitate diverse business processes and the interests of stakeholders for a client organization with a complete model as part of an outsourcing arrangement, is the new direction for FM service providers.85

“People who follow all the rules and chase every trend tend to get forgotten – they look great, but they’re not as memorable.”

*Dita Von Teese, American Dancer*
9. Appendix

1. What is your primary role?

- C-Suite: 46%
- Director of Real Estate (Director, VP, SVP): 12%
- Facility Management Director (Director, VP, SVP): 2%
- Operations and Facilities: 8%
- Knowledge Worker: 2%
- Project or Programme Manager: 2%
- Support Functions: 12%
- Other (please specify): 16%

2. What is the size of your company?

- 100,001 + employees: 38%
- 10,001 to 100,000 employees: 26%
- 1,001 to 10,000 employees: 21%
- 501 to 1,000 employees: 11%
- 1 to 500 employees: 4%
3. Where are your company’s headquarters located?
   *The figure does not add up to 100 due to rounding.*

- Western Europe: 27%
- Australia/New Zealand: 59%
- India: 7%
- Other: 4%
- North America: 2%
- Eastern Europe: 2%

4. Where are you personally based?

- Western Europe: 52%
- Australia/New Zealand: 9%
- North America: 3%
- India: 25%
- Rest of Asia (not China or India): 5%
- China: 4%
- Other: 2%
5. Where does your company operate?

6. What is your company's primary industry?
7. To what extent does your company currently outsource facility services

8. In your opinion, what is holding your company back from outsourcing facility services?
9. How satisfied is your company with the service offerings provided by the facility services industry, today?

Average satisfaction of 6.6 out of 10

10. How satisfied is your company with the contractual relationships of your outsourced facility services?

The figure does not add up to 100 due to rounding.

Average satisfaction of 6.7 out of 10
11. Overall, to what extent do you see outsourcing being used by 2020?

- Significantly less: 0%
- Less: 3%
- The same: 21%
- More: 48%
- Significantly more: 28%

12. What megatrends do you believe will have the greatest impact on outsourcing by 2020?

- Technological development: 92%
- Globalization: 81%
- Sustainability: 75%
- Economic growth: 63%
- Knowledge society: 56%
- Acceleration and complexity: 39%
- Commercialization: 38%
- Network society: 36%
- Focus on health: 32%
- Demographic development: 31%
- Individualization: 14%
- Polarization: 3%
- Immaterialization: 3%
- Democratization: 3%
13. Compared with today, to what extent do you think your company will outsource facility services by 2020?

- Significantly less: 1%
- Less: 1%
- The same: 30%
- More: 48%
- Significantly more: 20%

14. What facility services do you think your company will be likely to outsource by 2020, and to what extent?

- Facility Management
- Catering Services
- Technical Services
- Catering Management
- Support Services
- Security Services
- Workplace Management
- Other

- Significantly less
- Less
- The same
- More
- Significantly more
- Not applicable
15. In general, do you expect your company to have more or fewer outsourcing providers for facility services by 2020?

*The figure does not add up to 100 due to rounding.*

16. In general, who are your company’s current outsourcing providers for facility services and who do you expect your company’s outsourcing providers to be for facility services by 2020?
17. To what extent do you agree or disagree with the following statement: “Mutually beneficial relationships with providers will be important to consider when outsourcing facility services by 2020”?

![Bar Chart]

- **Strongly disagree**: 8%
- **Disagree**: 1%
- **Neutral**: 7%
- **Agree**: 31%
- **Strongly agree**: 52%
- **No opinion**: 1%

18. What are the types of outsourcing models for facility services your company will be likely to use by 2020?

![Bar Chart]

- **Input-focused**:
  - Significantly fewer: 10%
  - Fewer: 14%
  - The same: 21%
  - More: 26%
  - Significantly more: 29%
- **Output-focused**:
- **Outcome-focused**:

19. How do you expect your company to primarily measure the success of outsourced facility services by 2020?

- Reduced cost measures: 22%
- Increased income measures: 3%
- Various operational KPI’s (e.g. cleaning standard, delivery on time): 17%
- Various strategic KPI’s (e.g. customer satisfaction, employee satisfaction, productivity): 56%
- Other (please specify): 2%
10. Bibliography


ISS 2020 Vision

Future of Outsourcing and Perspectives for Facility Management

Moving beyond 2020, megatrends are reshaping outsourcing in several ways. New models of collaboration are emerging, and we are shifting towards business propositions rooted in relationships and outcomes, rather than transactions and inputs.

The future of outsourcing will be characterized by a high degree of collaboration in order to boost global competitiveness. Outsourcing is evolving to accommodate new market needs and the growing complexity of the challenges that will continue to face businesses in the future. Organizations will be demanding more from Facility Management as they come to realize the strategic value of work, workforce and workplace in enabling organizational transformation.