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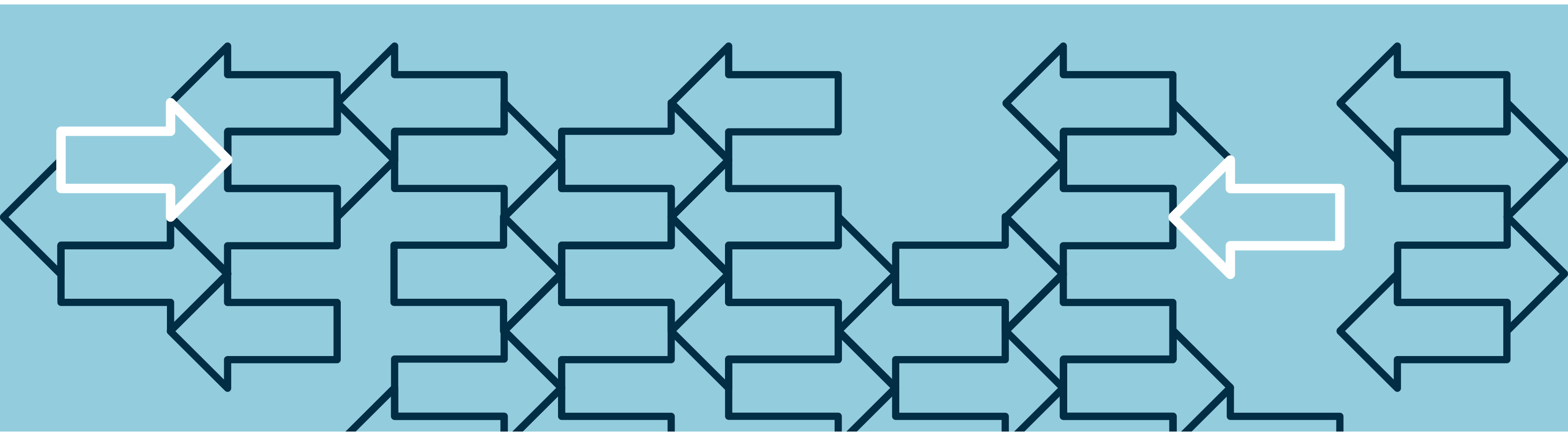
when it really matters

FEBRUARY 2018

IFM and support services are racing to the bottom, but what they need is a lift



Amid continuing macroeconomic and geopolitical uncertainty, it's unsurprising that global outsourcers and integrated facility managers (IFMs) are nervously looking over their shoulders.

C-suites will only grow more anxious as their companies struggle to deliver unwieldy multigeography, site, and service contracts—in an operating environment squeezed by austerity measures and clients demanding more for less.

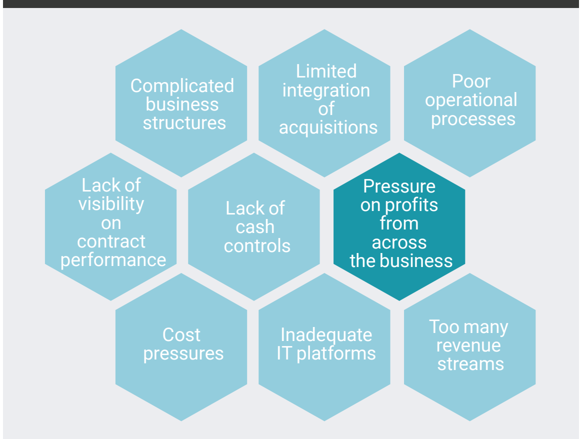
That may become a fateful mix when it gets combined with rising utility costs and aging assets, not to mention the risk of a skills shortage as the United Kingdom withdraws from the European Union. Even now, the pressures these businesses face are already daunting, and the challenges are likely to multiply (figure 1).

WHAT WENT WRONG?

Although the IFM and support services industries have mostly recovered from the recession, growth is expected to slow during the next five years. Clients still look to IFMs and support service providers to provide strategic solutions and bundled services—a trend that is not expected to change. As the industry wrestles with both demand and cost pressures, we'll likely see winners and losers emerge and even further consolidation. Now is the time for the industry to ask itself what went wrong and what we can learn from the past 10 years.

As the industry recovered from the recession, some companies pursued revenue (or contract) growth at the expense of contract profitability. And because

FIGURE 1: COMMON INDUSTRY ISSUES



Source: AlixPartners analysis

a rising tide lifts all boats, industry growth often compensated for underperforming contracts and overstated contract revenues. Still, popping open the hood on many of those businesses would not be a pretty sight.

Meanwhile, other companies decided to buy other specialist services either (1) to secure an increasing share of the outsourcing wallet—with a focus on mechanical and electrical, maintenance and fit-out, and security services—or (2) to simply augment contract volumes to keep the wheels turning. But those approaches were all too often executed without effective post-merger integrations, which led to increased organisational complexity and operational inefficiencies. Those issues in turn led to increased cost bases and deteriorations in service that dragged down profitability and, worse still, lost the companies some of their critical contracts. With much M&A activity involving businesses with turnovers of less than £100 million being consolidated into larger groups, it is no surprise that larger, diversified businesses have become increasingly complex to manage. For the c-suite, much of the task therefore entails (1) the assessment and unwind of such structures in order to create a more focused operation with clear lines of decision making, (2) the elimination of duplication of effort, and (3) the establishment of a platform that is both nimble and efficient and that has direct line of sight on contract profitability.

Even worse, many of the larger operators have chronically underinvested in their digital capabilities. That oversight has led to poor IT platforms that prevent companies from harnessing the latest digital technology they need if they're going to deliver competitive and profitable client services.

When growth stalls in the facilities management sector, the poor performance of contracts will quickly bubble to the surface as working-capital pressures take hold and cash becomes tight. Just look at the recent travails of several of the largest UK operators in the FTSE 100 Index, which has seen a rise in profit warnings in 2017, not to mention Carillion's recent liquidation. Health, domiciliary-care, and environmental services have been particularly hard-hit, as many players have either exited or sought to dispose of heavily loss-making operations in the past 12 months.

As cost pressures get heavier and c-suites grapple with unwieldy multigeography businesses, a focus on operational excellence while maintaining strong financial management has never been higher on the list of priorities.

WHAT CAN BUSINESSES DO?

Now is the time for industry operators to ask themselves some hard questions (figures 2 and 3). Companies can make immediate improvements in five core areas.

- **Review of organisational balance.** Companies should rapidly assess their organisational balance and structural consistency. They should highlight managerial spans that potentially inhibit decision making and service delivery or that result in service or manpower duplication. We have seen layering of corporate structure by the use of these visual tools, which enable companies to reduce their corporate and regional management cost bases by up to 40%.
- **Process optimisation.** Companies should assemble robust and multidimensional baselines of overhead cost and performance data that will provide the foundation for all opportunity analyses and that could then enable them to rapidly assess the opportunities they can gain from three main levers: efficiency improvements, service-level options, and scope and complexity reduction.
- **Cost base rationalisation.** Companies should conduct thorough assessments of the true costs of each business activity, benchmark the output, and, by making hidden costs visible, establish a menu of options to deliver savings targets.
- **Working-capital management.** Working capital is the cheapest and most-often-overlooked source of finance. Therefore, companies should identify and

FIGURE 2: KEY QUESTIONS TO ANSWER

Brand and customer proposition	What do you want to be known for, and how does this align with where you compete?
Contractual profitability	Where are you currently profitable, and does this align with your brand vision?
Client relationship management	How do client accounts work, and is there coordination between service lines?
Contract life cycle	How is contract profitability assessed and monitored from bidding through to delivery?
Diagnostic review of operations	Where are duplication of processes or operational inefficiencies ocurring?
Technology as an enabler	What investment is required in technology to drive operational efficiency and improve the service offering?

FIGURE 3: KEY ACTIONS TO CONSIDER

Establish and focus on your core offering that underpins the business' brand, and develop a disposal programme for services and businesses.

Focus on identifying loss making contracts and **renegotiate or exit poor contracts** to improve profitability.

Ensure service line cooperation to provide clients with bundles services rather than a silo client management relationship approach.

Assess processes, procedures, and risk management framework to ensure contract profitability and cash flow metrics are met.

Perform a diagnostic review of cost base and an activity-based review of organisational structure to rationalise cost base and improve operational efficiency.

Align the digital programme with the business strategy in order to create a sustainable platform that will reduce costs of service while maintaining contractual service levels.

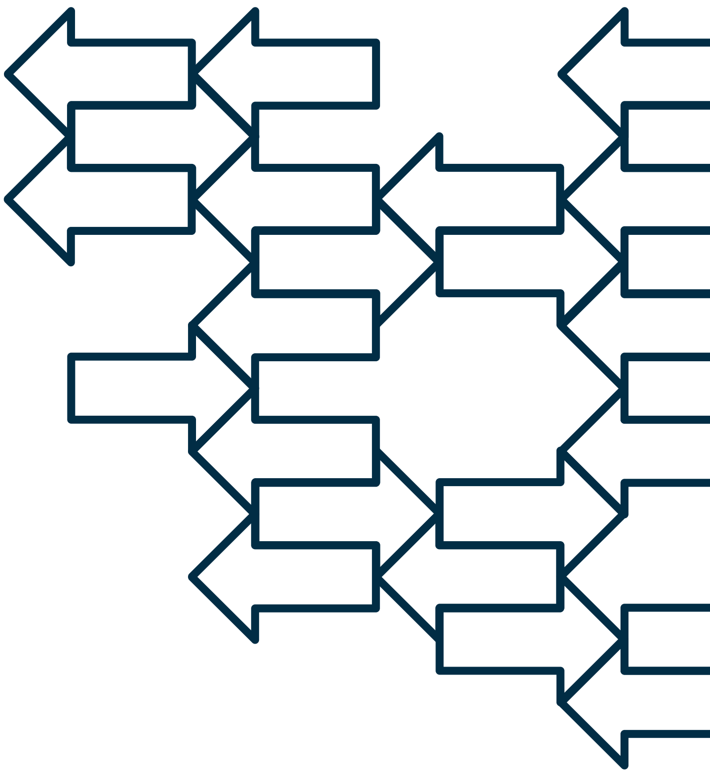
Source: AlixPartners

fix the root causes of working-capital issues so they can determine and act on short-term gains and make long-term, far-reaching changes that should become permanently instilled in their cultures.

- **Digital transformation.** Companies should digitally transform in order to succeed—if not survive. There are vast differences in capabilities and performance between companies that have achieved such transformation and those that haven't, yet transformation is a journey, not a onetime event. Companies should consider the level of digital maturity of their organisations and set the key priorities for digital strategy and transformation.

Those with longer-term memories will remember the rapid demise of stock market darling Connaught in 2010, when confidence in the business evaporated following public-sector spending cuts that resulted in questions being asked about the aggressive nature of the firm's accounting policies. Carillion's recent demise further illustrates this point. Failure is usually rapid—and painful—if action is not taken to stem losses across complex operations that have rarely been integrated or optimised.

In an industry that suffers from constant client churn, the challenges are to renew and expand contracts consistently. If growth stalls and client purse strings are tightened, winning operators will actively review their operations and processes to lift themselves toward the penthouse. **A**



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