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## Next Generation Facilities Management Outsourcing Strategies in the Asia Pacific Region



November 7, 2012

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# Agenda: Next Generation Facilities Management Outsourcing Strategies in the Asia Pacific Region

## Topics

Introduction and Objectives

Asia Market Overview

Overview of Sourcing Strategies and Approaches

Overview of Contracting Structures

Q&A

Please send questions you would like covered during Q&A via email to Bob Kelley: [bkelly@mayerbrown.com](mailto:bkelly@mayerbrown.com)

**Objective is to develop an understanding of the following:**

Drivers of FM Outsourcing

Optimal Sourcing Strategies

Critical Contract Provisions in FM outsourcing

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## Introduction



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## Mayer Brown's Business & Technology Sourcing Practice

- More than 50 lawyers in Asia, the Americas and Europe focused on business and technology sourcing, including facilities management transactions
- We have represented clients in hundreds of sourcing transactions, including over 300 major outsourcing transactions with aggregate deal value in excess of \$100 Billion
- Recognized Market Leader

*International Association of Outsourcing Professionals* Ranked as one of the top law firms in 2009-2012 on The World's Best Outsourcing Advisors list for The Global Outsourcing 100™.

*The Legal 500 US 2012* Sole occupant of the top Outsourcing ranking for the US in 2009 and ranked again in the top tier for 2010-2012.

*Chambers Global 2012* "Top tier" ranking in IT/Outsourcing for nine consecutive years (*Chambers 2004-2012*)

"Partners in its USA, London and Hong Kong offices frequently collaborate on multi-jurisdictional outsourcing deals for an enviable list of global clients."

*Chambers USA 2012* "They are not just great lawyers, but know how to get deals done effectively and efficiently."

*Chambers UK 2012* "This full-service firm is distinguished by its global reach and up-to-date market trend analysis."

*Chambers Asia 2012* "Many within the team have extensive industry experience, having previously held in-house positions at outsourcing and technology companies."

# UMS Advisory Services and Sample Clients

## UMS Advisory Focus

### Real Estate and Facilities Management

Market Trends and Strategy

Operational Excellence

Outsourcing Advisory

Supplier Governance

CREFM Transformation

Bio-Pharmaceuticals	High-Technology
Manufacturing	Financial & Publishing

UMS Advisory's mission is to partner with clients to create breakthrough performance solutions and business value in Real Estate and Facilities Management

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# Only Niche Firm In the Industry With Global Market Intelligence & Global Delivery Capability

## Global Office Locations

- *Arlington, VA*
- *Basel, Switzerland*
- *Singapore, Singapore*

## Global UMS Conferences (thought leadership & market intelligence)

- *US – 9*
- *EU – 4*
- **Asia**

- **1<sup>st</sup> UMS Advisory Asia Conference**
- **Being held at Merck's Training Center in Singapore**
- **December 4, 2012**
- **Social networking - Dec 3, 2012**
- **Invitation only event**

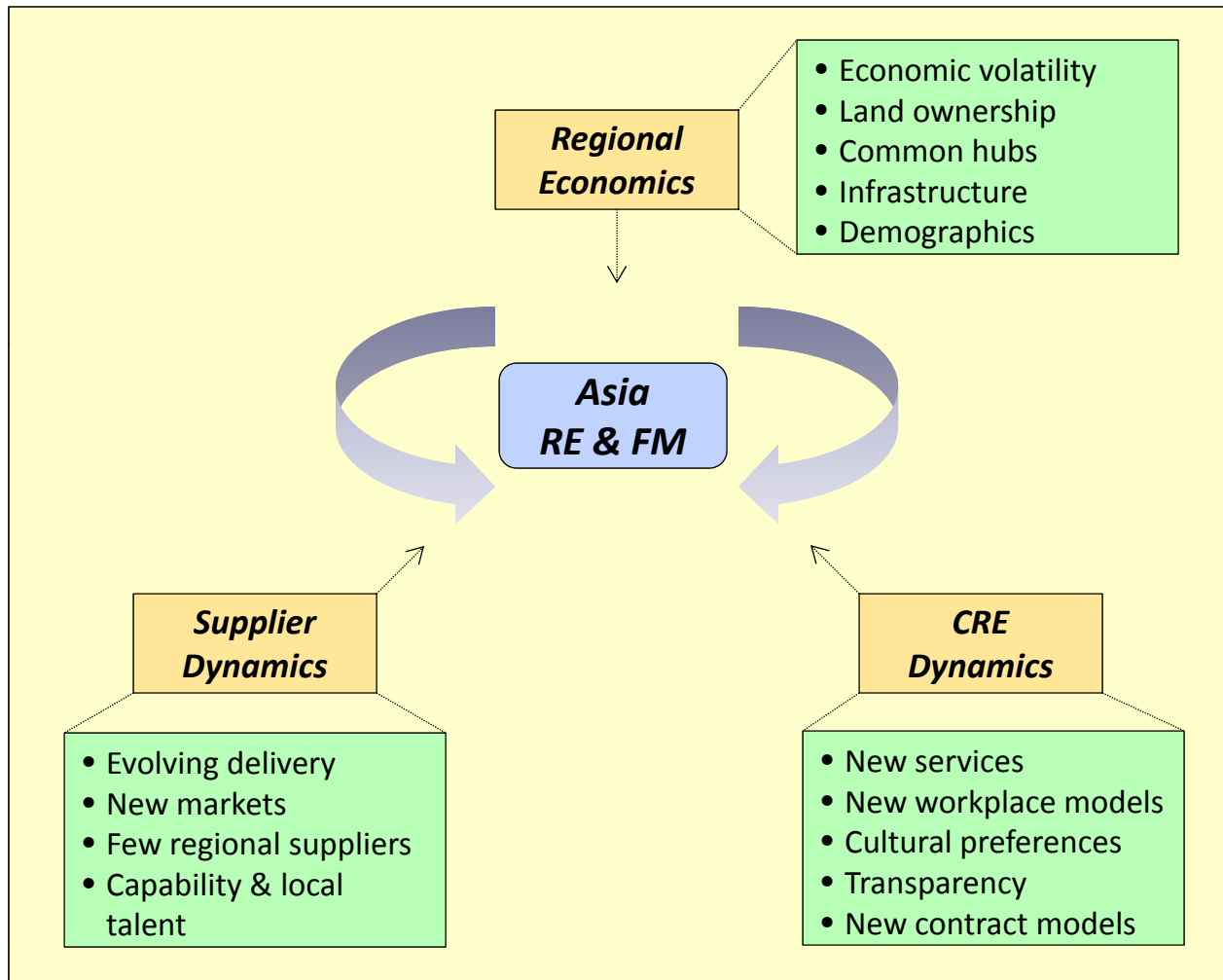


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## Key Reasons Why Companies in Asia are considering Outsourcing

- Greater consistency in service delivery and reporting
- Elimination of non-core activities
- Flexibility for change
- Savings and better ability to manage inflationary cost pressures
- Increased supplier capability and presence, particularly in key markets like China and India
- Enhanced transparency/reduced risk in emerging markets
- Examples of success in other regions (NA, EU)

# Three Major Forces Make Asia A Very Dynamic And Changing Market



*Estimates show that 70% of world growth over the next few years will come from emerging markets, with China and India accounting for 40% of that growth.*

*A third of global IFM sales are expected to come from emerging economies*

*95% of IFM Suppliers intend to increase their investments in emerging economies*

*Sources: E&Y, BCG, IMF*

## **Key Market Stats (2011)**

Total FM Revenues

(outsourced): \$3.5-4.0B

FM Employees (outsourced):  
80-100K

*Source: UMS Analysis*



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# Asia Market Overview

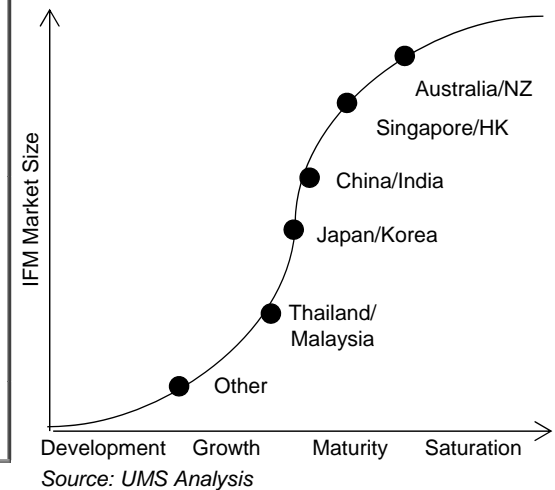
# Regions Are At Different Levels Of Maturity (Capability, Transaction Volumes, Reliability)

US	EU	Asia-Pac
<p><u>Market</u></p> <ul style="list-style-type: none"> <li>• Mature level of outsourcing, open market</li> </ul>	<p><u>Market</u></p> <ul style="list-style-type: none"> <li>• Parts of EU more mature and advanced in outsourcing, others maturing</li> </ul>	<p><u>Market</u></p> <ul style="list-style-type: none"> <li>• Developing market with large variations in maturity</li> </ul>
<ul style="list-style-type: none"> <li>• Minimal labor protections</li> </ul>	<ul style="list-style-type: none"> <li>• Labor market more restrictive</li> </ul>	<ul style="list-style-type: none"> <li>• Mixed labor market, generally open</li> </ul>
<ul style="list-style-type: none"> <li>• Consolidated supplier market</li> </ul>	<ul style="list-style-type: none"> <li>• Three tiered supplier market</li> </ul>	<ul style="list-style-type: none"> <li>• Established global suppliers, limited regional and country suppliers</li> </ul>
<p><u>Key Players</u></p> <ul style="list-style-type: none"> <li>- CBRE</li> <li>- JCI</li> <li>- JLL</li> <li>- ABM</li> <li>- DTZ</li> <li>- Others (e.g., Lincoln Harris, Fluor, C&amp;W)</li> </ul>	<p><u>Key Players</u></p> <ul style="list-style-type: none"> <li>- Tier 1: Global (Sodexo, ISS, JCI, CBRE, JLL)</li> <li>- Tier 2: Regional suppliers (e.g., Cofely, Veolia)</li> <li>- Tier 3: Country suppliers</li> </ul>	<p><u>Key Players</u></p> <ul style="list-style-type: none"> <li>- JLL</li> <li>- CBRE</li> <li>- JCI</li> <li>- DTZ</li> <li>- ISS</li> <li>- Sodexo</li> <li>- Others (C&amp;W, Colliers)</li> </ul>

**RFP Growth Rates**

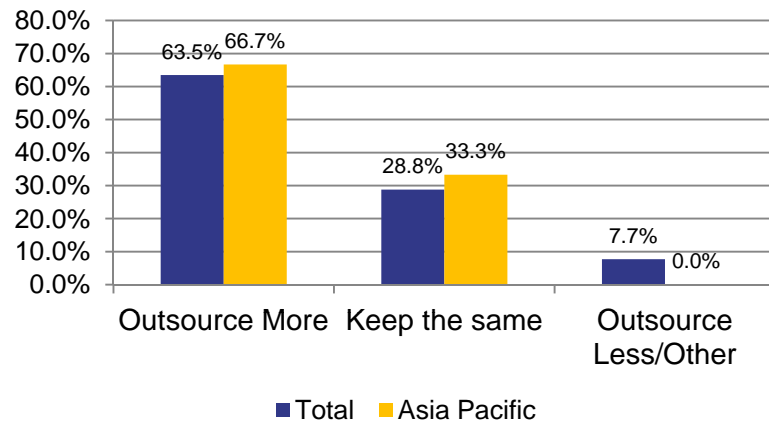
- Market growth
  - US: Low
  - EU: High
  - AP: Medium
- 20%-40% increase in global RFPs

**Asia IFM Market Market Life Cycle Analysis**



# Our Data Signals High Growth Expectations For Outsourcing In Asia

**Q: Client: Is your organization planning to:**

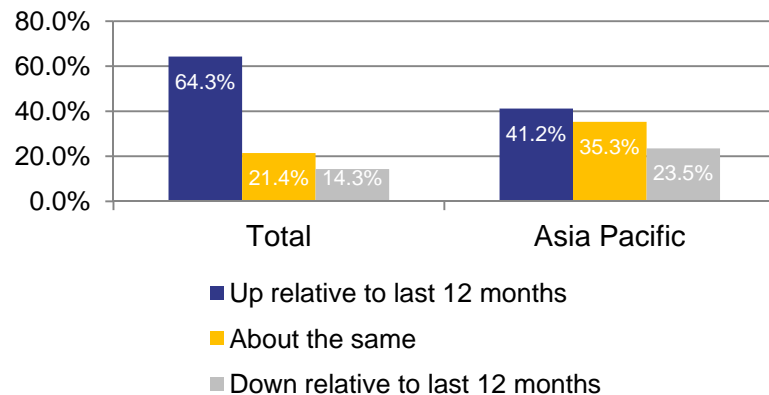


## Overview

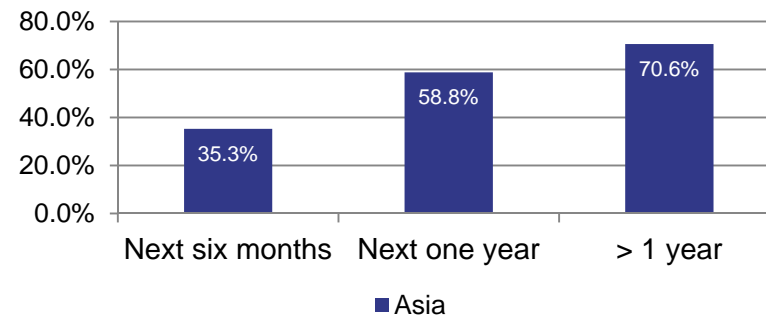
- End-Users and Suppliers both indicate significant expected growth in outsourcing
- Long sales lead times reflected in time-horizons for growth
- Market pipelines show robust growth levels

Source: UMS Market Survey Oct 2012

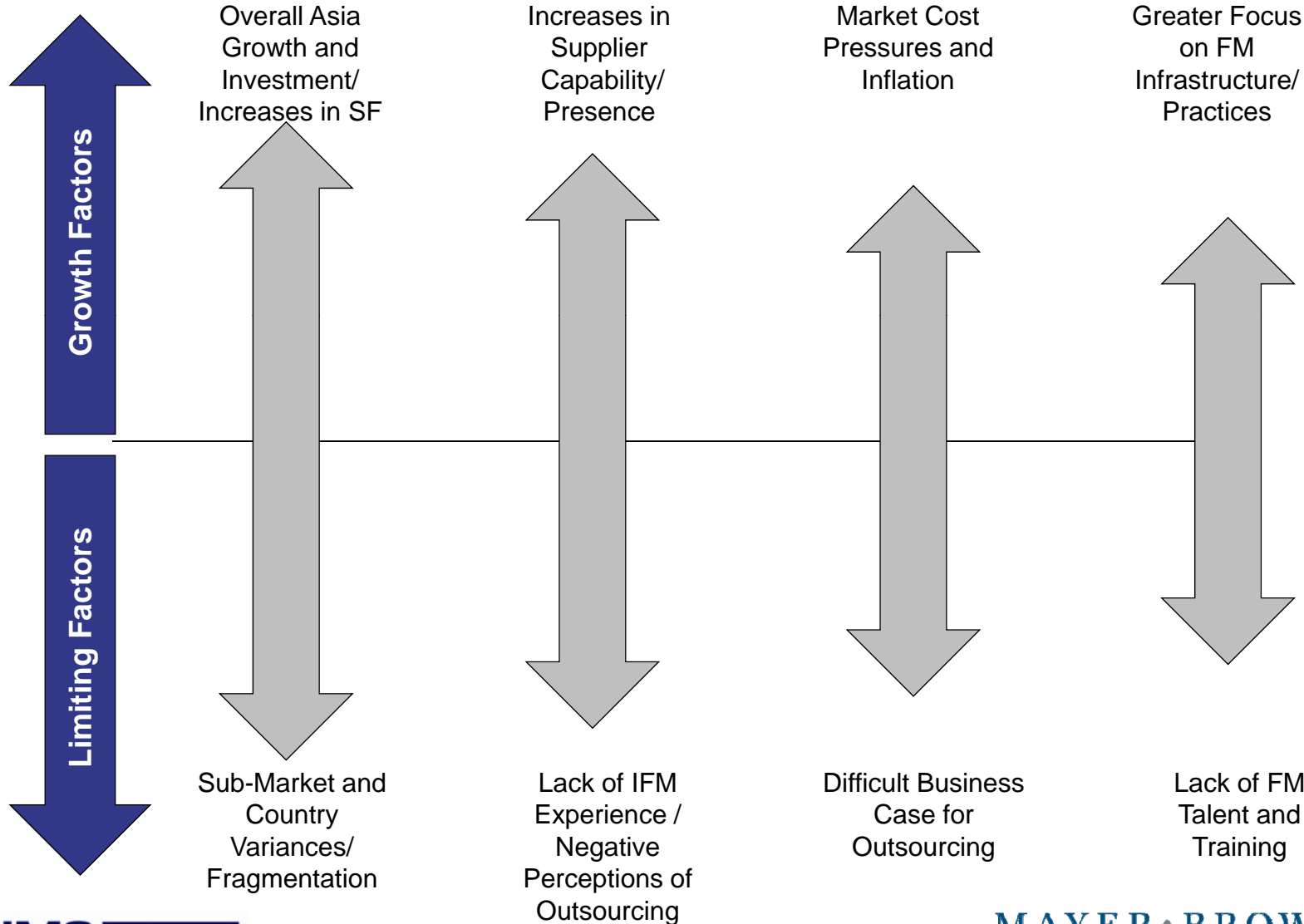
**Q: Suppliers: How would you characterize your firm's pipeline for new RE/FM services deals?**



**Q: Suppliers: How do you expect the pace of customer demand for RE/FM services to change over the time frames outlined below? (% indicating demand will increase)**



# The Growth Potential May Be Tempered By Constraints



# Market maturity impacts decision of where and how to outsource in Asia

## Market Maturity Segmentation

Low

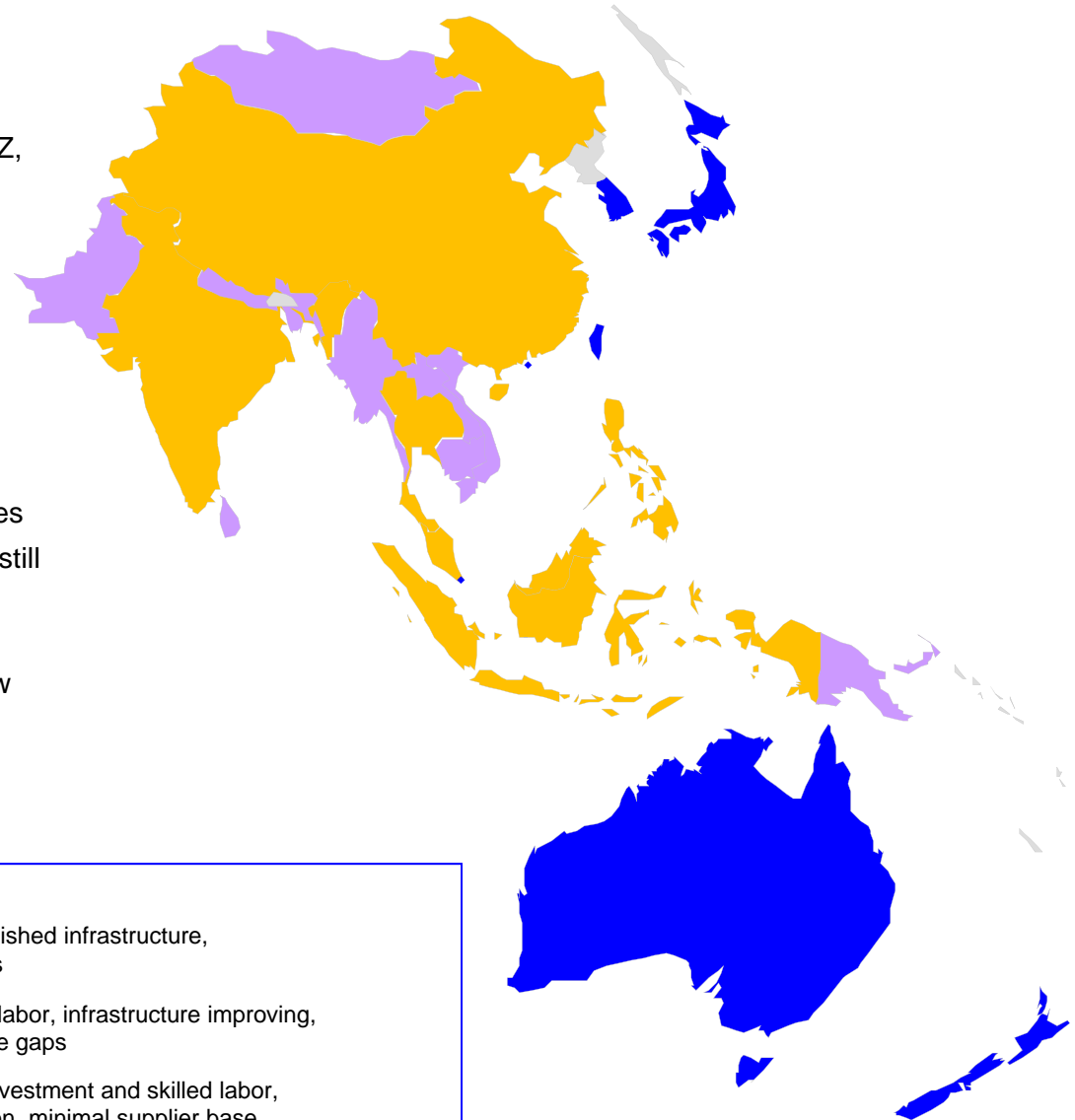
Medium

High

<b>Skilled Labor</b>	Lack of qualified management and skilled labor	Growing presence of qualified management and skilled labor but gaps remain	Abundance of qualified management and skilled labor
<b>Non-Skilled Labor</b>	Low skill labor abundant	Low skill labor abundant to moderate	Low skill labor more challenging, but labor “imports” cover
<b>Wages</b>	Low	Low to medium	Medium to high
<b>Infrastructure</b>	Poor building stock, significant infrastructure limitations (roads, utilities, etc.)	Mixed level of infrastructure, with likely variations by location within country	Well-established infrastructure - quality buildings, significant infrastructure
<b>Standards</b>	Very minimal level of standardization	Low to medium level of standards	Well established standards and regulatory bodies
<b>Supplier Base</b>	Minimal supplier base with low level of outsourcing	Increasingly mature / stable suppliers with some key gaps, outsourcing present in some areas	Mature / stable set of suppliers, high level of outsourcing
<b>Economic, Political and Legal</b>	Political and economic instability hinders investment and growth, legal system poorly established	Moderate to very strong economic growth, political and legal concerns still exist	Stable economic environment and established legal/political system

# Market Maturity Summary – 3 Tiers

- Australia / NZ / Japan / Korea / Singapore/ Hong Kong
  - Mature markets with choice of capable suppliers
  - Variance in outsourcing levels – greater in Aus/NZ, lower in Japan/Korea
  - Stable infrastructure, legal/political and economic environment
- China / India / Philippines / Malaysia / Thailand
  - Increasing Global FM Supplier base.
  - Continual knowledge transfer from Global FM organizations provides improved management practices, technology and technical skills
  - Low cost workforce but increasing wage pressures
  - Infrastructure, legal/political, and other concerns still exist
- Vietnam / Pakistan / Cambodia / Other
  - Minimal qualified supplier base with abundant low cost labor.
  - Infrastructure, political and economic instability hinders growth

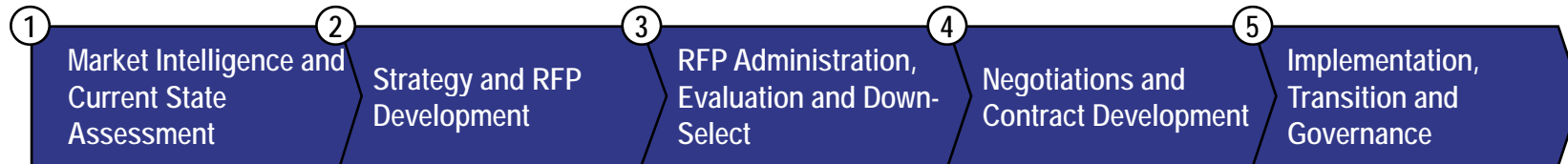


Market Maturity	
■ High	Qualified management and skilled labor, established infrastructure, high technology base, mature / stable suppliers
■ Medium	Increasingly qualified management and skilled labor, infrastructure improving, increasingly mature / stable suppliers with some gaps
■ Low	Lack of qualified management, infrastructure investment and skilled labor, minimal technology base, lack of standardization, minimal supplier base

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# Structuring and Negotiating the Deal

# Typical Approach & Key Issues In Each Step – Especially In Decentralized Legacy Settings



- Failure to define a saving
- Baseline discrepancies
- Scope disagreements – a constant changing variable
- Transparency – polarizing issue
- Skepticism of outsourcing at a site level
- Lack of current market practices
- Lack of SLA’s measurable standards

- Inability to shift from prescriptive to outcome RFP
- Inconsistency between site realities and RFP documents
- Challenges in tailoring documents to site levels

- During site visits, site reps contradict RFP data
- Tussle for scope changes
- Skepticism towards supplier proposals
- Inability to understand how savings will be achieved

- New positions emerge
- LOL standards
- Who should pay for what overhead
- Changes in scope & termination
- How fees will be earned and costs paid
- Baseline “validation”

- Communicating the contract
- Operationalizing the concepts
- Baseline findings
- Unfilled positions
- Talent
- Sponsorship and advocacy at a local level
- Scope attrition



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# Key Issues – That Executive Sponsors Care About

## People

- How will people be treated
- Labor risks

## Service Levels

- How will these be protected?
- How will you know?

## Financials

- How will we know savings when scope is changing?

## Exit

- Can we exit if we need to?
- How will we migrate
- What if there is underperformance

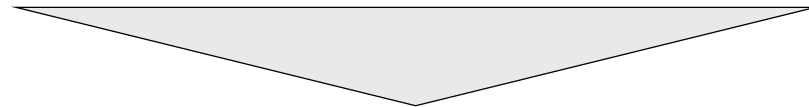
## Changes & Scalability

- How will be contract enable us to:
  - Acquire
  - Divest
  - Add sites or scope

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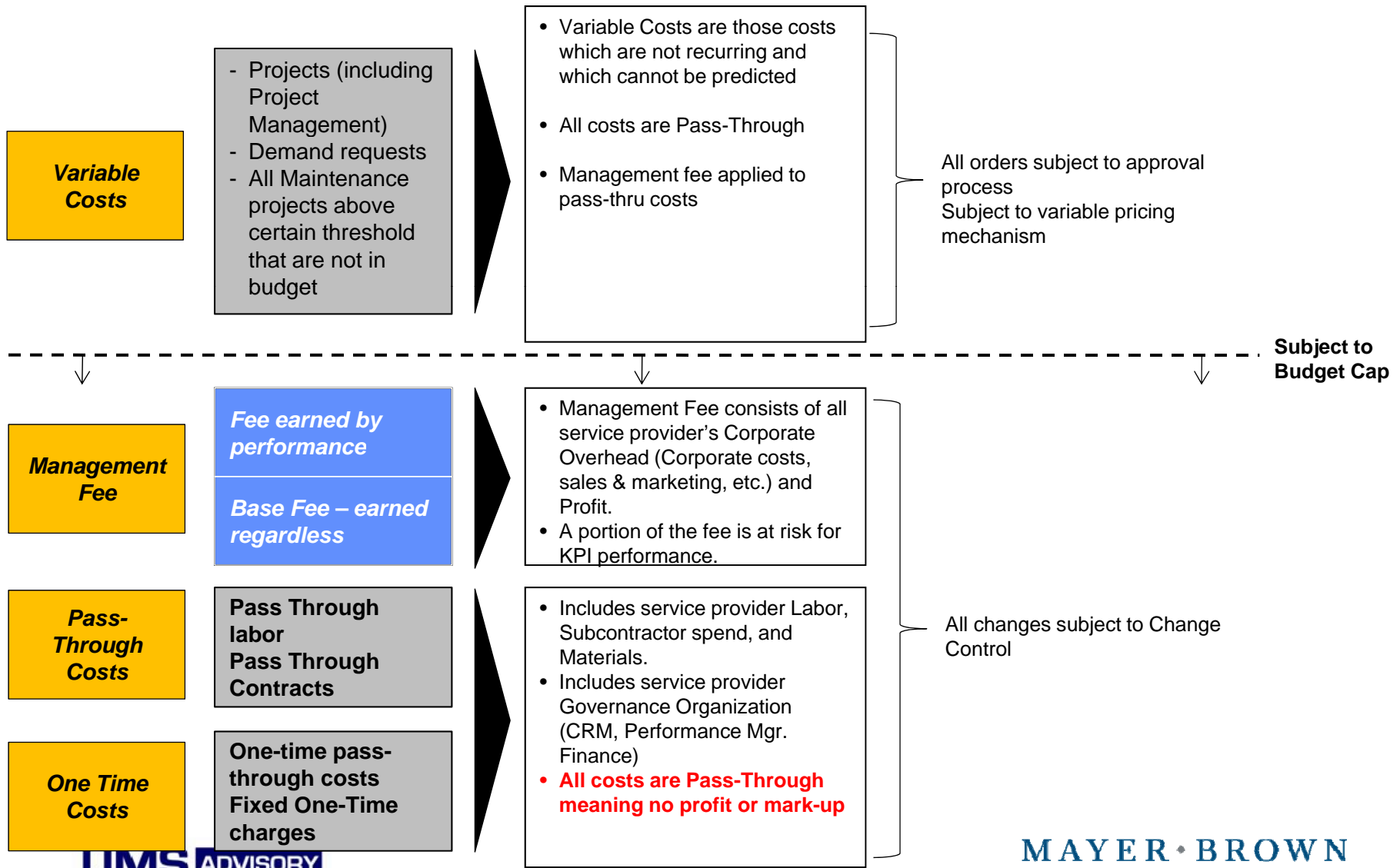
## Typical Challenges Of FM Outsourcing Pricing

- **Clients don't have baselines – or, sometimes, the service cost is not known to a meaningful degree**
- **Cost is misallocated:**
  - We say something is out of scope, but cost remains in baseline
  - Conversely, we say something is in scope, but there is no cost in the baseline
- **Internal cost is not completely allocated or is not transferred**
- **“Volumetrics” are not tracked**
- **Project spend is commingled**



- RFP responses are conditional
- Supplier assumes and clients concede “validator in chief” role to supplier
- Pricing is not finalized down-stream
- Disputes over what expense projects were in scope

# Contract Cost Structure Elements – Each Element Requires Definition And How It Needs To Be Treated



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# Contracting for FM Outsourcing

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## Key Issues in Asia by Region / Subregion

- Legal environment
  - Legal systems
  - Judicial systems
    - Enforcement
- Specific contract considerations
  - Governing law (election and limitations)
  - Dispute resolution mechanisms
    - Contract terms (escalation mechanics, arbitration)
    - Contract structure (structured to promote enforcement)
- Contracting practice / environment

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## Overview of Critical FM Outsourcing Contract Provisions: Outsourcing Contract Basics — Purpose and Role of Contract

- Memorialize all business terms, i.e., the allocation of legal, financial and operational responsibility and risk
- Address all known and foreseeable issues
- Provide a workable framework to manage the relationship, address future change and resolve disputes

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## Overview of Critical FM Outsourcing Contract Provisions: Outsourcing Contract Basics – Structure and Flexibility

- Difference between contract right and governance process
- Flexibility – and address change and maintain leverage
  - Within contract
  - External to contract
    - Multiple Suppliers
      - Can help reduce risk if there is an ability to move work between suppliers
      - Ability to move quickly as contracts already in place
      - Continuous competition
      - But caution regarding touch-points

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## Overview of Critical FM Outsourcing Contract Provisions: Capturing Services

- Definition of "Services"
  - Comprehensive description – robust SOWs
  - Sweeps clauses
    - *"inherent, necessary or customary"*
    - Displaced personnel
    - Financial baseline dragnet (if applicable)
- New Services
  - Commitment of supplier to propose/bid
  - Pricing protections



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## Overview of Critical FM Outsourcing Contract Provisions: Capturing Services - New Services

Materially  
different

- If immaterially different – it is the same; in-scope

Requires  
materially  
different  
level of  
resources

- If immaterially different level of resources required – would have been done with existing resources

Not defined  
pricing  
methodology

- Expedited approval process

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## Overview of Critical FM Outsourcing Contract Provisions: Performance Indicators

- As contractual performance standards
  - Mechanisms to measure performance
  - Mechanisms to incentivize performance
    - Credits (non-exclusive remedy; amount and multiplier)
    - Credit compounding/earn-back
- Importance of flexibility - right to add, delete or modify
- Problem analysis and resolution

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## Overview of Critical FM Outsourcing Contract Provisions: Compliance

- Compliance with laws
  - Laws specifically applicable to supplier
  - Laws applicable to client
- Compliance with client standards / rules

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## Overview of Critical FM Outsourcing Contract Provisions: Termination

- Termination by client
  - Default
    - Material default standard
      - Objective (though undefined – "material default") standard
      - Pre-defined situations
    - Multiple immaterial
  - Convenience
- Termination by supplier
  - Payment default only

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## Recent Trends in Contracting for FM Outsourcing

- Growing awareness and interest among clients, including by regional players (not just regional component of global deals)
  - As regulation increases (e.g., environmental) greater pressure for sophisticated capabilities and solutions
- Appreciation of supplier best of breed – recognition that capabilities differ and make a difference
  - Willingness to deal with multiple suppliers
- Raising the bar

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## Q&A



Please send any additional questions to Bob Kelley: [bkelly@mayerbrown.com](mailto:bkelly@mayerbrown.com)

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## Thank you



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