

Facilities Management Programs:

The Realities of Vendor Outsourcing

Depending on your organization's size, sophistication and demand for copying resources, your vendor's Facilities Management (FM) services may appear to be an excellent solution for managing document production. The FM option eliminates the need for employing and managing human resources, investing in education in an environment of expanding technology and the headaches of maintaining sensitive equipment and complex document production. What could be the downside of outsourcing your copying facility performance, leaving you free to focus on your company's core competencies rather than on the business of document duplication and assembly?

While a sensible argument might be made for outsourcing your copying needs under a straightforward and clearly priced vendor program, the reality is that FM services are an open invitation to cost abuse. The following analysis presents the dangers and pitfalls of such programs, and offers guidance in minimizing the negative implications of such a program if your organization can benefit from such an implementation.

Bundled Pricing

First of all, FM services are priced as a bundled package; employees, equipment, service & supplies are all lumped together in a base charge. This makes it difficult to determine what each individual element of the package is costing, and virtually impossible to compare to in-house costs for each specific factor. The surprising fact here is that the vendor may allocate as much as \$100,000 for a single service employee!

Lack of Ownership

Two specific disadvantages arise with the FM program as applied to copying equipment itself:

1. By not owning the equipment, your company will be paying a premium; directly by paying for equipment you will never own, and indirectly by foregoing deductions and depreciation.
2. In the case where upgrades or downgrades are necessary, you will be charged for the new equipment while continuing to pay for the original equipment for the life of the FM contract.

Usage

Two common sources of excessive costs as applied to usage are:

1. Contracting for a base usage of 500,000 copies per period versus actual usage of 200,000 copies.
2. Contracting for a base usage of 500,000 copies versus actual usage of 1,000,000 copies. The overage is often then charged at a rate of 2-4 cents per copy as compared to the normal rate of less than .01/copy. Furthermore, the service employee time for this "excess" production can be charged as overtime at rates of \$25-35/hour; a concept we refer to in the business as "double-dipping."

Vendor Personnel

Since the service employees belong to the vendor, performance and evaluation of these personnel are no longer under your organization's control. There is a tendency under these circumstances for performance figures to be fudged, with the result being that the vendor may claim that additional employees are justified to handle a workload which may be overstated. In addition, an overstated workload may result in the vendor claiming the need for outsourcing of production off-site, for which the customer is charged usage rates of 5-10 cents/copy.

Over-taxation

This problem results from bundling employee salaries and service charges with equipment and supplies. California state law mandates sales tax on the two latter items, but specifically precludes sales tax on salaries and services. By bundling everything together, the vendor applies sales tax to the total billable amount, including those items which would not normally be taxed.

Annual Increases

Vendors normally apply 5-10% annual cost increases on service and supplies for in-house copy production and support. However, under the terms of the FM contract, this increase will apply to equipment and excess production over base allocation in addition to service, supplies and employee salaries. The increases in equipment costs are entirely unjustified as the equipment is not being updated. You are merely paying more each year for the term of the FM contract on equipment which neither increases in value nor performance. As an example, in a FM contract of \$15,000/month, of which the equipment portion (if it could be separately identified) is \$3,000, annual increases of 10% will drive the equipment costs to \$4,392 after four years. This is an

increase of over 40% - with absolutely no benefit! Include the unnecessary increases in excess production charges as compared to a fixed five-year contract on service & toner, and the FM program looks downright resistible!

Loan Rates

The loan rates on equipment leases under FM programs run anywhere from 12-28%. Not only does this incur additional expense, but at the end of the contract term, there is no option to buy the equipment, no sale-back, nor any 10-40% residual recovery.

Recommendations

Because vendor Facility Management programs present so many opportunities for abuse, we strongly suggest the following:

1. Avoid Facility Management programs if at all possible, maintaining your document production needs in-house and acquiring equipment through outright purchase or through independent lease arrangements.
2. If it is determined that it is in your organization's best interest to avoid the direct management responsibilities of an in-house operation, then demand that all costs associated with the FM program (equipment, salaries, supplies and service) be identified separately. Require the equipment portion of the charges to be billed separately to avoid unnecessary sales taxes. Finally, negotiate a base usage rate that best reflects your current and estimated future levels.