Facilities Management as a "Not-for-Profit" Profit Center

Most organizations consider Facilities Management to be a cost center. While technically correct, this can be "strategically" wrong in terms of the attitudes of facilities staff and the perception of the function.

The perspective of facilities management as a profit center can provide more value to your organization.

What's in a Name?

Cost Center vs. Profit Center

It's all about perspective…

A change in perspective can change how you view your facilities assets and how the facilities function operates.

A cost center is part of overhead expenses that need to be kept lean, and do more with less. But your facilities group can be a potential source of value, innovation, and competitive advantage.

Regardless of what you call it, adopting a "profit center" mentality can help your facilities function provide significant and meaningful contribution to your organization's success.

The key is to think about how facilities provide value for your organization.

The Value of Facilities

The profit center mindset starts with understanding the reasons you have facilities in the first place – their purpose and benefit to the organization. **What facilities do you need for your organization to succeed in the future?**

- Provide Physical Environment (Space) for Organization Activities
  - **A place for your employees to work.**
  - A place to manufacture and assemble inventory; store equipment, inventory, materials.
  - A place to display and sell merchandise.
  - A place to provide service, training, interaction, or other staff/customer experience.

- Convey an Appropriate Image
  - **Accurate reflection of your organization's values.**
  - Adequate quality.
  - Suitable combination of technology & sustainability.

- Provide a Competitive Advantage
  - **Provide logistical efficiencies.**
  - Recruit the best employees.
  - Offer flexibility to adapt to significant changes on the horizon.

Facilities As Financial Assets

Your facility assets are probably one of the largest items on your balance sheet. They might be the largest capital asset, and are most likely the second largest operating expense after payroll. *So why not employ a financial mindset on their management?*

- **Understand The Value of Each Facility Asset**
  - Based on the operational needs, the financial value to the organization can be defined and a "pro-forma" prepared for the designated timeframe.
  - Large variance in the market, book, and business value of the facility asset can be identified and then exploited or managed.
  - The criticality of the facility asset to the business can be defined and appropriate measures put in place to manage the associated risk.

- **Understand Your Current Facility Assets**
  - Confirm the appropriate type in the appropriate location.
  - Determine how well they are utilized and their condition.

- **Have a Plan to Manage Investments in These Assets**
  - Manage the asset condition to maximize the value of each for its purpose.
  - Establish market competitive, multi-year CapEx and OpEx investment programs.
  - Minimize risk (both financial and operating).

The Perspective from the FM Function

Having a profit center mentality within the facilities management function encourages staff to think like they are <u>part of</u> the business and not just <u>support to</u> the business. *The key mental shift is from a focus on cost-reduction to one on how to add value to the organization.*

- Operational Advantage
  - Identify innovative facility approaches that improve organizational competitiveness or accomplish sustainability goals (beyond those with financial return).
  - Use business mindset to evaluate, justify, and present facility investments.
- Waste Reduction
  - Maximize facility utilization.
  - Identify facility alternatives that result in potential business operations savings.
  - Improve operational efficiency within facilities function; Re-apply cost savings to other facility initiatives as a self-funding approach.
- Revenue Generation
  - Identify compatible, external revenue opportunities from underutilized facility assets.
  - “Beat” comparable market costs.

The Perspective of the FM Function

If facilities management is viewed as an equally valued profit center (or value center) by the other organizational departments, facilities are often considered earlier in the business planning, resulting in better decisions.

- More Partnering
  - The facilities function is viewed as a consultant with valuable expertise about facilities to contribute to the business.
  - With awareness of operational plans/objectives across the organization, facilities can identify beneficial cross-business unit synergies.
  - The business departments can make more informed decisions about costs and risks associated with their facilities.

- Smoother Implementation
  - Plans and expectations are better aligned at the start.
  - Earlier involvement by the facilities function allows potential problems to be avoided.
  - SLA for each property are more clearly defined and understood by both facilities and business departments.

A Summary of Differences in Perspective

Cost Center

- Facilities are an overhead expense.
- Everyone looks for costs that can be cut.
- FM is a support group directed by facility users.
- Each department controls their own facilities.
- A cost center only needs to meet budget.

Profit Center

- Facilities are assets to properly manage.
- Staff looks for value opportunities.
- FM group is the subject matter expert to advise facility users.
- FM group promotes synergies among departments.
- A profit center is intended to show return.

Example Benefits

Two Examples of Opportunities from Profit Center Perspective

Self Funding Facility Plan

- Facilities Director obtains agreement from CFO for level OpEx budget for 5-years.
- Year 1: Four low-cost (< 12 month ROI) energy projects implemented out of FM budget.
- Year 2: Energy cost savings funds 2 more low-cost and one deferred maintenance project.
- Year 3: Accrued savings used to fund 6 low and medium cost (< 36 month ROI) projects and one deferred maintenance project.
- Year 4: Accrued savings used to fund 1 complete building upgrade.
- Year 5: FM OpEx adjusted down with 80% of reduction offset to create new capital "reinvestment" budget for ongoing projects.
- Net reduction in FM Opex of 8%.

$2.2 Million Purchase Avoided

- State highway department determines they need to take an existing office property for a planned new highway.
- The business unit in the office starts planning for the relocation.
- The facilities department was asked to find a new office property to replace this one.
- Instead, the facilities department evaluated how to restack an office that was underutilized by another business unit to fit the relocated department.
- The plan was presented to both occupying business units for review and approval.
- Purchase/lease of new office space was avoided with a net savings of $2.2 million.

How to Promote a Profit Center Perspective

Empower your facilities group to show initiative, and challenge them to show how facilities contribute to the success of the organization.

- Act as "Owner" of Facility Assets on Behalf of Organization
  - Support the larger organization objectives.
  - Promote smart and efficient use of facility assets.
  - Adopt multi-year investment plan to properly manage asset value

- Strive to Beat Market Performance
  - Understand and track total cost of ownership
  - Savings are the same as "profit" to the organization

- Proactively Look for Value Opportunities
  - Improve organizational competitiveness
  - Improve space utilization and occupant behaviors.
  - Manage facility quality & condition.
  - Improve facility maintenance quality and compliance with SLAs.
  - Explore sustainability, safety, and environmental opportunities.

- Report (Up and Down Chain of Command)
  - Use regular KPIs in the organization's business terms.
  - Track progress against plan.

Quantifying Your Opportunity

This presentation was about ***mindset***…

There is a significant benefit to the organization from the mindset alone, but the financial benefits can be quantified using a bit of "managerial" accounting. We can help you with that or you can learn more about it on our website.

You can find more ideas about how to think strategically about your facilities, along with examples and resources at: www.RALStrategies.com/articles/ .

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