

Outsourcing: Managing the Relationship for Maximum Results

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Globalization, mergers and acquisitions, the tight labor market, the tech boom, and then the global business slowdown – the list of business pressures facing companies in just the past few years seems overwhelming. Many companies are looking to external service providers to help them respond quickly to market pressures. As a result, the demand for outsourcing services has exploded. It has also evolved.

At first, companies began outsourcing in areas like manufacturing where cost considerations were imperative. Eventually, companies broadened their outsourcing activities into functions that require expertise that would be inefficient to develop in-house, such as facilities management. As companies gain experience with outsourcing arrangements, they are realizing how to better utilize these relationships. Outsourcing not only helps companies to lower costs, it enables them to focus on their core competencies, gain access to world class capabilities, reduce costs and free up their resources.

Although the advantages of outsourcing are generally acknowledged by executives, surrendering day-to-day control of an important function to an outside resource can cause worry. This is particularly true when the business function being outsourced can directly impact the company's mission. So when a company is considering such a move, it is very important to find a trusted partner. What executives are looking for in an outsourcing relationship is the sense that their provider sees and understands their company's business objectives, and will use that knowledge to align with them.

This is where customer relationship management (CRM) comes in. CRM optimizes client satisfaction and the service provider's value through a deeper and more accurate understanding of the client's needs. It helps the provider maintain focus on the relationship and sustain its alignment with the client company over the length of the relationship.

What Makes CRM So Compelling?

For more than 10 years, The Vanguard Group® has been outsourcing its facility management to Johnson Controls, a global provider of facility management solutions.

Vanguard is a leading mutual fund firm and provider of company-sponsored retirement plan services with a unique organizational structure. Unlike most other investment firms, Vanguard is owned by the funds and thus by the funds' shareholders, instead of being controlled by an outside management firm. The company recognizes that

every dollar of investment expenses directly reduces the total return to the investor. Therefore, a key element of Vanguard's investment philosophy is its emphasis on keeping costs low for its clients. And with 30 facilities in three states, corporate real estate is a significant factor in carrying out this philosophy.

"Operating our company is basically an expense to the funds, so everyone in our company tries to do everything they can to keep the expenses down so that we can maximize the return on our clients' investments," said Bob Gross, principal for real estate and facilities management with Vanguard. "We need to keep expenses to a minimum but keep quality high."¹

Like many executives, Gross' role and responsibilities are driven by his company's mission. He is held accountable for his part in advancing it. In turn, the service provider to which he outsources the facility operations and maintenance must be held to the same standard.

"Even though the service provider is a different company, they must see our priorities as their own and align with them," said Gross. It is for clients like Bob Gross of Vanguard that Johnson Controls has established a CRM program.

Johnson Controls understands that for the service provider, the process of earning the client's business begins the first day of a new relationship – and it never ends. It becomes a relationship management strategy for as long as the partnership exists. For companies like Johnson Controls, CRM is the top strategy for pursuing information and ongoing dialogue that helps build long lasting, mutually beneficial customer relationships.

What Does Customer Relationship Management Involve?

CRM is a never-ending journey toward a relationship that is completely focused on the customer's needs. Although executed through technology, processes and people, it is not just a program to be implemented or a system to be installed. Rather, it is a philosophy, a mindset to be adopted by employees. CRM is most successful when it becomes ingrained in the service provider's very culture.

On the CRM journey, a systematic, ongoing relationship management program is an effective way to begin, execute and continue a successful outsourcing

¹ Phone interview with Bob Gross, principal for real estate and facilities management with the Vanguard Group, (Mar. 1, 2004).

business relationship. The idea is to create a customer-centered learning organization whereby customer feedback information is circulated to all levels of the organization and action plans are developed to address client concerns. Therefore, service providers that claim to practice CRM but have no formal process or identified responsibilities in place may merit skepticism.

Johnson Controls is committed to CRM to optimize its customers' satisfaction. The company's program incorporates the following key elements.

Set expectations and objectives up front

The foundation for a successful relationship must be laid even before the contract is signed. Not all clients and service providers make a good match. Even with a strong relationship management program in place, it can be difficult to maintain a bad fit. Before entering the relationship, it should be clear that the client and the service provider share the same vision for the relationship.

It cannot be assumed that a contract or agreement is all-inclusive of the client's expectations. According to Dun & Bradstreet's research, one of the most common reasons cited for failed relationships is "the outsourcing supplier didn't understand what they were supposed to do."² Therefore, a new contract should initiate a meeting intended specifically to help the service provider clearly understand the client's key business objectives and associated expectations. Afterward, the service provider should be prepared to develop an action plan that will help document and actualize these expectations.

Review expectations and adapt to changes

Over the course of a long-term relationship, it is natural for customer needs and expectations to evolve. Therefore, the action plan should be reviewed regularly to ensure that it continues to accurately reflect the current situation. Also, a significant change within the customer company—such as the implementation of downsizing initiatives or the inauguration of a new CEO—is likely to change the business objectives. Any changes should initiate a review, and perhaps adjustment, of the action plan.

Furthermore, just as the client company strives to respond quickly to market pressures, the service provider must demonstrate agility in responding to changes in the client's needs. By consistently monitoring its service and product attributes that are most valued by the clients, the

service provider is able to continuously adapt or improve its delivery of business solutions.

In addition to monitoring needs and managing expectations, the service provider must also monitor the client's perceptions. The service provider's goal is to clearly understand what is important to its client so that it can proactively make changes before any dissatisfaction arises. That understanding also helps the service provider to continually bring innovation to the customer's business. Regular surveys conducted by independent third parties are one way to track client satisfaction.

Measure results and tie them back to the bottom line

A CRM program can and should provide the means by which the service provider communicates the value of the relationship to the client in terms that matter to the client, which means demonstrating operational performance as well as business impact. This is why it was critical to have identified and agreed upon objectives up front. It is just as important along the way to confirm that the objectives are still on target or to realign the objectives to reflect changes.

For example, the service provider might produce regular business reports to demonstrate achievements and their impact on the bottom line. Such reports help portray the value the service provider delivers by focusing on how its services align with the client's specific key business objectives. They are useful as benchmark comparisons and in identifying areas for improvements and innovation as well.

Relationship Management Maximizes Results

The CRM process is circular in that it is continually being reinvented to address the client's ever-changing needs. The service provider listens to the voice of the client, executes its plan relentlessly, and strategically develops the relationship. The outcome is synergy, which benefits both the service provider and the customer.

Enhances the benefits of outsourcing

Having a formal CRM program in place amplifies the fundamental value of outsourcing: it enables a company to focus on its core business while benefiting from the service provider's knowledge and resources. By continuing to better understand the client's business objectives, the service provider is able to introduce new and innovative solutions on a planned basis to drive additional value.

² Dun & Bradstreet Barometer of Global Outsourcing (2000).

Although CRM requires some commitment on the client's part, efforts to maintain a successful outsourcing relationship are sure to reap a greater return on investment than if the client company would choose to forgo outsourcing altogether.

Improves client satisfaction and retention

Ongoing client surveys can help substantiate whether the relationship is still on track. If it isn't, the feedback captured is useful for addressing any issues head on. By tracking client satisfaction, the service provider is able to learn about problems or concerns before they affect the relationship. Also, by documenting the client's perceptions and expectations, the service provider can develop and implement action plans to address the customer's issues and concerns.

The relationship between customer satisfaction and client retention has been documented in a book called Customer Centered Six Sigma.³ According to the co-author, Steve Hoisington, *very satisfied* customers have a retention rate of 92-97 percent one year after being surveyed, compared to 80-85 percent for *satisfied* customers. For a large company, millions of dollars lie between those percentages. A mere one-point improvement in customer satisfaction can yield additional multi-millions of dollars in sales, Hoisington says. And 91 percent of renewed business comes from customers that are *satisfied* or *very satisfied*.

Enables innovation

When the provider is closely aligned with the customer, they are able to deliver more tailored, timely solutions that contribute to the customer's business and values. For example, for one customer with a history of setting the pace on environmental issues, Johnson Controls helps the company achieve its environmental targets through its Energy and Environmental Consulting program.

To achieve best market value and the largest percentage of renewable energy, Johnson Controls provided a highly detailed analysis of the customer's multiple sites. With this analysis in hand, Johnson Controls was able to demand exact costs from each site's energy supplier, which could then be compared against other suppliers. The contracts that resulted were competitive in

price and directly supported the customer's mission to use renewable energy sources when possible. This practice became a blueprint for all of the customer's sites worldwide.

Beyond providing value, the service provider has a role in helping the client to articulate the value of the outsourcing relationship to the organization. Research indicates that the importance of "reporting real estate information regularly to corporate executives" was among the top three primary roles of corporate real estate professionals within their own organization.⁴ For corporate real estate professionals like Bob Gross, a regular, digestible report from his service provider is a convenient way to present operational performance metrics and demonstrate the business impact.

Ensures alignment between the organizations

Outsourcing is a people-oriented business that deploys processes and technology into the client's organization to drive out inefficiencies. While processes and technology are controllable functions within the outsourcing model, research and experience indicate that it is the people and the relationship strategy that make the difference between meeting or exceeding expectations.

There is no question that the goal is for the service provider to develop a close working relationship with the client and for the service provider's team to be indistinguishable from the client's employees. A CRM program encourages practices that help the service provider better understand the client's needs and objectives, optimizing alignment between the two partners.

"They have really adopted our method of management. They had to train their people to think the way we do," said Gross of his service provider partner. "They think of themselves as part of the Vanguard team, and this has been a huge key to the success of our relationship."

About the Author

Gisele Marcus, director of strategic customer development at Johnson Controls, is responsible for leading the company's CRM program, Clients for Life™. Milwaukee-based Johnson Controls is a global provider of facility management solutions with more than 1.2 billion square feet under management.

³ Customer Centered Six Sigma: Linking Customers, Process Improvement, and Financial Results, by Earl Naumann, Steven H. Hoisington, American Society for Quality; 1st edition (January 2001).

⁴ Survey of real estate officers conducted by the Corporate Real Estate Management Research Unit at the University of Reading and the Strategic Planning and Innovation Unit at Johnson Controls, Inc. (2001).

