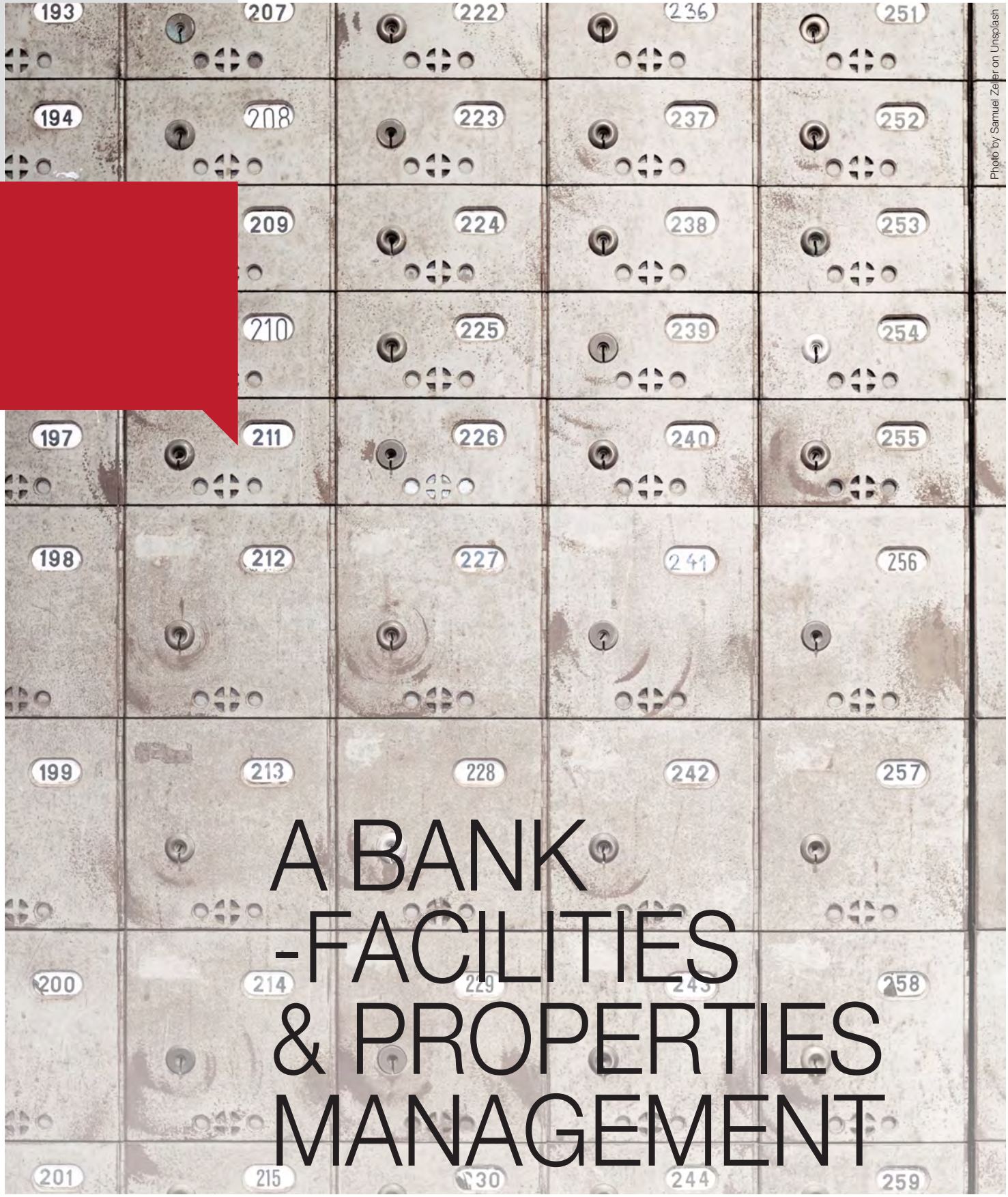

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A BANK -FACILITIES & PROPERTIES MANAGEMENT

A Case Study by

MCGRATH

MCGRATH

Contents

Introduction

- Industry: A bank with more than 500 branches throughout the whole country
- Scope: Facilities and properties management division
- Location: Southern Europe
- Ranking: Number one in the country
- Duration: Analysis: 6 weeks Implementation: 24 weeks + 15 weeks follow up
- Audits: 1, 2 and 3 years after the conclusion of the project

Problem Statement

1. A strong operational cost reduction was required.

2. In the facilities and properties management division unreliable and incomplete information did not allow management to make any decisions in order to reduce operational costs.

3. The costs containment policy was not properly rolled down throughout the organisation so frequent requests for superfluous works and maintenance were presented, which the department couldn't reject.

4. Due to the obscurity of the information reported it was impossible to understand where the money was spent or to justify or evaluate the investments.

5. Because the expenditure was accounted as investment instead of costs in most cases, it became easier to spend money on works that were not justifiable with the cost containment policy.

6. Regarding cleaning and security, there was the impression (at Board level) that the services were expensive and poor.

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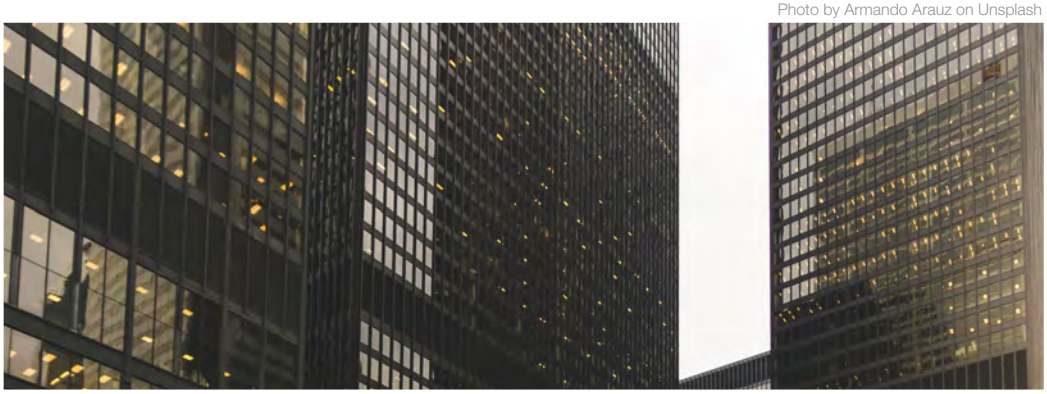

Analysis

Scope

The scope of the analysis was the facilities and properties management department, which included works and maintenance services, comprising the functions of works and construction, maintenance, repairs, cleaning and security. The properties included in scope were their commercial network (branches), the central buildings and the headquarters.

The departments included in the analysis were:

- Headquarters and central buildings maintenance
- Studies and projects
- Works and constructions
- Commercial network maintenance
- Energy management
- Cleaning
- Security

Cost Analysis

The difficulty in obtaining reliable information regarding construction and maintenance costs was very indicative of the difficulty in managing those costs efficiently.

In order to determine what was spent on works and maintenance it was necessary to check 2,800 works with a deficient and heterogeneous description, many with no allocation to cost centre and with very little information on what was involved. Under these conditions, any cost management was practically impossible.

In spite of this, *McGrath* executed an intensive analysis and thus presented data that drew some significant conclusions. Taking into account some margin of error due to the lack of quality of the source information.

The most important cost categories were: electricity, air and temperature, civil construction, maintenance, layout change and legal. The first four were self-descriptive. 'Layout change' included mainly minor changes in the branches and 'legal' broadly included all kinds of certifications, fees, etc…

McGrath was also able to process information by cost centre. The process was equally laborious, since the allocation had to be frequently investigated or deduced. Only 5% of the total cost had an appropriate cost centre but after the study *McGrath* managed to allocate 95% of the total costs. The highest cost was originating from the branches.

Finally, *McGrath* created an 'expense' classification system where the criteria was determined by need. This classification system was intended to separate the inevitable and essential expenditures from the superfluous ones (the ones that could be postponed without major consequences).

Although definitive conclusions could not be drawn given the poor quality of the background information, this was an indication of the potential for savings, especially if the

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conclusions were confirmed by the analysis of the works process and its management system, as was the case.

Some classifications were unavoidable, the ones identified were: emergencies, legal and closures. In the case of closures, their inevitability starts at the time of their decision, in the other two cases, by their nature.

Within this procedure remained two other categories of work: necessary/planned and unnecessary/doubtful.

In order to work on these categories, a first classification was made on a representative sample of 80% worth of works from 9 months from SAP. A first check was made with staff in the area and then an extrapolation of the concepts of classifications. Thereafter (just with the 'unnecessary/doubtful' list) a new review was made with the staff of the area covering 80% of the total value.

Although this procedure was exhaustive, the low quality of the source information did not allow *McGrath* to draw definitive conclusions. But the result obtained was indicative of the potential cost reduction that existed in this case.

Through the analysis of the processes and the management systems it was verified that there were no filters on the order entry. This lack of filtering and the lack of authority of the area to decide which works to do, turned it into mere order fulfilment, which facilitated an expenditure with very little control.

Cross-referencing categories by activity type and by need-level, made the picture even more descriptive.

The conclusion of the analysis in this area was that a very large part of all the works could be avoided or delayed without negatively affecting operations, staff morale or the corporate image perceived by the customers.

Regarding the cleaning and security costs there were no controls over the performance of contracts.

But also, and more importantly, there were no independent preliminary studies that were done in order to determine the adequate extent of such services, and therefore, the

extension of the service (and its costs) was defined by the providers themselves.

While it is true that all contracts were awarded by public bidding, the margin of discretion, once the service was awarded, was very large. Lack of control over service execution increased the risk of over billing for services poorly delivered or services that were not delivered at all.

Process Flow Analysis

The following processes were analysed:

- Maintenance of the commercial network facilities.
- Works performed in the commercial network facilities.
- Maintenance on headquarters and central buildings.
- Works performed at headquarters and central buildings.
- Acquisition and control of cleaning services.
- Acquisition and control of security services.

Identified Opportunities for Operational Improvements

The main opportunities to reduce the cost of works and maintenance without degrading essential aspects or dealing with overly bureaucratic processes stemmed from defining and implementing a system for designing a budget through the negotiation with all internal customers and establishing an initial filter to classify and enforce the budget.

At the same time, it was necessary to create a management system that defined objectives, plans and, above all, information on the performance and cost needed to assist in making appropriate decisions.

Of all the works identified as unnecessary/doubtful works, some could be discussed, but most of them were incompatible expenditures with the strategy of cost containment.

Poor existing management systems and incomplete processes were the main reasons for the current situation as no alarms were created to correct inappropriate or unnecessary requests. The obscurity and confusion of the information also allowed the situation to continue.

McGrath identified an annual value of unnecessary/doubtful works that amounted to more than one million euros, so the goal was set to achieve savings of half that value: 581,000 €.

Management Systems Analysis

The management systems analysed were:

- Headquarters and central buildings
- Maintenance management system
- Commercial network facilities maintenance
- Management system
- Studies and projects management system
- Construction and civil works management system
- Energy management system
- Cleaning management system
- Security management system

Identified Management Improvement Opportunities

The main opportunities for the optimisation of the maintenance and works functions management derive from the implementation of the new management systems that granted to the direction of the area, the authority to reject requests out of budget, to establish a filtering process and share the strategical decision of cost containment.

It was also required to advance in the formal qualification of the suppliers, to improve the timely planning for the branches (to close or work with restrictions during the works), to improve the works reporting information and the suppliers control.

Regarding the cleaning and the security functions management, the opportunities lied on the renegotiation of contracts with suppliers, defining the exact needs of the service (measured activities and with defined frequencies in the cleaning, positions and schedules defined in the security) and a sound system to control the execution of the service.

Implementation Program

Program

The implementation program designed and agreed upon included the following interventions:

- Works and construction management system
- Maintenance and repair management system
- Cleaning management system
- Security management system
- Supplier evaluation and control system

In order to deliver the program a crew of one project manager, two senior consultants and two junior consultants were allocated to the project during 24 weeks.

Works and Construction Management System

It was necessary to implement a completely new management system for works and constructions:

- A new budget planning and negotiation process was established involving all internal clients.
- The new budget was managed by the facilities and properties management director, according to the priorities established.
- The new budget was communicated at all levels in all the internal clients' departments.
- A filtering process was developed and implemented to ensure that everything worked according to the priorities and budget set.
- SMART objectives and the KPIs to be reported were defined and communicated to be able to measure performance.
- A plan (monthly/quarterly) was implemented which allowed the area to proceed efficiently with a vision of all the work it had to perform.

- Procedures and standards were implemented and criteria defined so all work could be performed uniformly and efficiently.
- IInformation and reporting methods were defined which shed a new light on the types of work performed, their internal customers, costs, quality and performance and hence increased understanding in these areas.
- Regular management meetings were implemented for
- decision-making with the correct and complete information.

Significant cost savings were achieved through unnecessary superfluous work and other postponed work.

Maintenance Management System

A new maintenance management system was implemented:

- The preventive maintenance plan was redefined on all equipment at all of the properties, according to the good knowledge of the client specialised technical staff, who were allowed to make recommendations to modify the supplier's maintenance plans.
- A budget was designed based on the preventive maintenance plan and an essential estimate of the corrective maintenance to be performed in the period involving all internal customers was devised.
- The new budget was managed by the facilities and properties management director according to the priorities established.
- The new budget was communicated at all levels within this area.
- A filtering process was developed and implemented to ensure that everything worked according to the priorities and budget set.
- A forecast was calculated to ensure that the area had the resources it needed to meet the needs that followed.
- SMART goals were defined and communicated, this included information on which KPIs were to be used to measure performance.
- New procedures and standards were defined and implemented when preventive maintenance was changed.
- Information and reporting was defined and implemented which helped to understand the types of work performed, their internal customers, costs, quality and performance.
- Regular management meetings were implemented for decision making with correct and complete information implemented.

A significant cost reduction was achieved through the removal of unnecessary preventive maintenance activities (through renegotiation of contracts), the reduction of unnecessary superfluous work and other work that was postponed.

Cleaning Management System

It was necessary to implement a new system to manage all outsourced cleaning contractors:

- Cleaning times and frequencies were defined and procedures and standards were implemented to define how the cleaning work should be performed.
- Control methods were defined to ensure that all work was performed efficiently.
- Information and reporting forms were defined which helped to evaluate costs, quality and performance.

A significant cost reduction was achieved through the removal of unnecessary cleaning activities (through renegotiation of contracts), the reduction of cleaning frequency (when it made sense), and superfluous cleaning activities.

Security Management System

A new system had to be implemented to manage all security subcontractors:

- New security configurations were defined with positions, functions and areas of influence in each building, and procedures, standards and security criteria were implemented, according to the good knowledge of the client's own specialised staff.
- New forms of control were defined to ensure that all work was carried out efficiently.
- Information and reporting forms were defined which allowed to evaluate costs, quality and performance.

A significant cost reduction was achieved through the removal of unnecessary activities (through renegotiation of contracts) and re-qualification of activities (allowing subcontractors to perform some activities with less qualified personnel).

Supplier Evaluation and Control System

A full new suppliers evaluation system was implemented in the facilities and property management department (which was quickly copied and implemented in other departments).

- A scoring system was defined and an open and trans parent scoring system was implemented with standard communications and actions defined. Eventually the actions defined were included in the new contracts signed.

New contractual conditions were redefined for all functions of the department: (maintenance, works, cleaning, security, repairs).

Results

Financial Results

The savings obtained far exceeded the initial estimate made during the analysis.

In percentage terms the following cost reductions were achieved:

Construction costs (comparison of annual periods): - 14%
Maintenance costs (comparison of annual periods): - 12%
Cleaning costs: (comparison of contract renewal prices): - 21%
Security costs: (comparison of contract Renewal prices: - 9%

In financial terms, annual savings summed up to € 1,898,000 during the first year after the program.

Non-Quantifiable Results

Clear goals, accountability for work, and the best information on the works created an atmosphere of trust within the team that improved motivation and cooperation.

In addition, the confidence shown by the technical staff (requiring them to be involved in defining important aspects of preventative maintenance, construction, cleaning and safety) resulted in the empowerment of personnel and an exasperating control over the work of subcontractors, which improved these services enormously.

A significant improvement on the management information quality side made it possible to make quicker decisions with more precision and to achieve even more savings and improvements in those services and functions.

Summary

The bank went from a lack of control (which facilitated superfluous expenditure in times of costs containment) to a clear policy with all the controls in place for the bank to invest resources where they were most needed.

Important financial gains were made but most importantly, a new system and culture was in place that ensured the perpetuation of the financial improvements.

New management systems were constructed around the cost containment policy. A closer control of suppliers became a standard and new skills were acquired at all levels. In the department motivation was boosted due to this empowerment and this trait soon became part of the culture.

Return on Investment

The return on investment achieved was 4.2:1 and the full reimbursement of the investment in the program was achieved only weeks after the program ended. During the last week of the program the client received 89% of the money invested in the program, in savings, with another year to multiply those savings by more than four.

In the two-year audit (after the completion of the program) the savings were kept constant and increased with new decisions taken due to the quality of information and the zeal of the employees in improving the efficiency and service.

The audit conclusion stressed that savings have been consolidated and increased due to a change in personal behaviour, with the staff focusing on the effectiveness, efficiency and quality of these services and functions.

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