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Performance*raising contractor revenue*

## Zero-Based Servicing



The economy's outlook is bleak and the bottom isn't in sight. Optimists say it's six months away. Others, two years from now. And that's the bottom, few are guessing when we'll get back to where we were before the crisis.



Some companies don't that have that kind of time. They're in desperate need now and won't be getting federal help.

Whether they've mismanaged their business before the economy tanked, or if they were just [unfortunate to be in an industry that's sunk](#).

Either way, it doesn't matter, they're there. And what those companies need is time. Time to develop new products, new markets, new customers - something new that gets them back into growth mode.

Even healthy companies are positioning themselves to survive a tougher future.

That's where facility service spend comes in. Reducing spend buys a company time. And while a facility service budget is not the largest spend, reducing it helps a company's chances of survival.

For those companies that can get through this economy unscathed; well done.

For those companies in desperate need, this month's Revenue-IQ article introduces a radical concept for reducing facility service spend: Zero-based servicing.

Hold on tight, here goes.

A handwritten signature in blue ink, which appears to be "Chris Arlen".

Chris Arlen, President, Service Performance

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### Not For Everyone

Zero-based servicing is proposed as a desperate measure for desperate times.

It's intended for situations where cost reductions absolutely, positively have to be 35%, 40%, 45% or more from last year's spend.

The usual practices of RFPs seeking low market price and slicing

specifications off the top won't reduce spend to needed levels.

Cutting spend with zero-based servicing will bring pain. But hopefully it'll help companies buy time and avoid the last big pain of closing their doors for good.

For healthy companies needing 5% to 10% annual reductions in facility spend, skip zero-based servicing. You can get those savings in less painful ways.

Also, if there are multiple end-users who pay for the use of their facility, i.e. tenants, then zero-based servicing is not a good fit. The hassle to change tenant leases to a new level of service may be a hill too large to climb.

With that said, if huge cost reductions are essential to keep the doors open, read on.

## **What is Zero-Based Servicing?**

In concept it's similar to zero-based budgeting, but it's more than budgeting - it's an aggressive approach to facility service specification, budgeting, and spending.

As a starting point, look at how it's done traditionally. A budget is developed from last year's spend with a slight increase or decrease going forward. Or, if outsourced, services are bid out to get the current year's pricing. Both begin by starting from the past - that's the reference point.

However, zero-based servicing starts by clearing the deck of specifications and spend.

Then, starting from the ground up, it builds service specifications based on absolute need. Need as determined by the contribution the service makes to the company's bottom line.

Specifications drive cost, and cost becomes spend, and that's relative to contributions.

## **The Missing Link**

Justifying, or proving a facility service's contribution to the bottom line has always been a missing link.

As a support function, a successful facility service has never improved a company's ability to develop new products, new markets, new customers. You can't save your way to success.

However, we know intuitively that cleanliness, comfort and security make a more productive and effective workplace.

But the degree of service is grey. How much service is enough? How much is too much?

These questions have always been around. The economy's pressure now makes them critical to all.

## **10-Step Zero-Based Servicing**

Zero-based servicing is a new idea. Here's a simplified version of an implementation process. One that is similar to most organizational change initiatives.

### **1) Enlist an Executive Champion**

Any dramatic change needs air cover. Seeking to reduce costs through re-engineering will need an executive high up enough to authorize the attempt.

### **2) Select a Likely First Win Service**

Some facility services will be easier and have bigger reductions than others (see "Service Candidates" below). The selection of the service determines the resources needed.

### **3) Create a Design Team**

Implementation and success are driven by stakeholder buy-in. Create a group of those effected and knowledgeable. Their fingerprints on the design improve the likelihood of success. Consider members from:

- End-users
- Facility management
- Procurement
- Contractors
- Consultants

These will be the designers of the new service levels, and should also become evangelists for the change. Positive word of mouth will be your ally.

### **4) Educate before Designing**

In one of your early meetings, include a brief training session, Service 101, to educate the design team on the selected service.

The goal is for team members to better understand the service's:

- Cost structure
- Production and/or coverage factors
- Wages, benefits, insurances & the local labor market
- Performance metrics: [Key Performance Indicators \(KPIs\)](#) & Service Level Agreements (SLAs)

Don't be put off by this list. Facility service isn't rocket science, it just takes some familiarity.

### **5) Identify Contributions, Failure Costs & Absolutes**

This is the heavy lifting.

Here the team identifies what a service contributes on a task by task basis. It looks at the area and frequency of what the service needs to accomplish for the company's operations.

The objective is to question every task, every activity for its contribution. For example:

--> This service does this task --> This task allows, enables, frees someone to do something important for the company.

Additionally, the team must identify what could go wrong if the task failed, by not being done, or at a lesser frequency, or by another resource. Would it increase chances of injury? Stop company production? Require early replacement of equipment or finishes?

There will be fear involved with questioning the old ways. But that fear may be based on a belief that past specifications successfully prevented failure. This isn't always true, sometimes we're just lucky.

All of this will be new territory for everyone involved. There are no pre-defined answers to this work. The right answers will be the ones the team decides. And it will take time.

CAVEATS: At no time should a reduction make a company non-compliant with any of the following:

- Safety is an absolute requirement and should be baked into the performance of all work
- Regulatory, Environmental, Legal & Social responsibilities must always be met, all the time

## **6) Specify Service from the Ground Up**

Service specifications will create themselves by working through the process above.

Concurrently, a straw man budget should be calculated as the absolute essential tasks are identified.

To do this, cost factors such as production/coverage and wages/benefits need to be agreed to by the team using their learning from the Service 101 session.

## **7) Identify Success Metrics**

The team will also identify KPIs and SLAs for the service's new specifications.

Performance baselines from before should be erased. A time period should be identified for setting new baselines as the service shakes down and end-users become acquainted with the changes.

## **8) Develop Communication Program**

There will be end-user push back from re-engineered services.

A communication program helps end-users prepare for, and accept the changed service.

Initial announcements and on-going reminders should be outlined, along with key message points. It's important to identify who's producing and managing this program, along with costs, if any, to produce it.

Additionally, the team can identify end-user departments or company staff most likely to feel the changes strongly, and design specific hand-holding communications or events to help these groups get over the hump.

The communication program is a critical component for the success of zero-based servicing and should be given the team's full effort.

## **9) Outsourcing & Procurement**

If Procurement is required to bid out all contracts, then the RFP process is based on the team's service design. This makes Procurement's RFP into a full-disclosure bid, where the RFP requires all contractors to bid using the team's:

- Service specifications
- Wages, holidays, vacations & benefits
- Production, staffing and/or coverage

Bidders compete by providing their pricing for:

- Profit
- Overhead
- Insurances: General Liability & Workman's Comp
- Equipment & supplies

Procurement manages the RFP process as normal using the above parameters. For more information on facility service costs, see "Pricing Survey Data Collection"

Site visitations for contractors are always recommended, even more so as your design team has reduced specifications.

If cost reductions are needed immediately, and the incumbent contractor is capable and responsive, Facility Management can work with them to implement the team's design directly.

## **10) Identify Pilot Site/Area**

If time allows for implementation, the team can identify a pilot deployment of zero-based servicing.

A pilot program with a 30-day preparation and 90-day run would provide enough information for the team to course correct as needed.

## **Use Only Once**

Zero-based servicing is probably best used only when a company's viability is threatened, when it's in extreme economic difficulties.

Repeated use in back to back years may have its disadvantages outweigh its reductions. That first cut may be survivable, but further reductions may take you off of life support.

## **Use Only On the Advice of Your Doctor**

In addition to your end-users designing the brave new world, you'll need guides to help you get there.

Include service-specific operational expertise; whether that's from your in-house resources, contractors, consultants, or contractors acting as consultants.

## Service Candidates for Zero-Based Servicing

Not all facility services benefit equally from zero-based servicing. Some will produce larger cost reductions, and some will have more difficult implementations.

It's the relationship between impact (reductions) and effort (implementation) that can help you identify the services for zero-based servicing.

The four services listed below are not all inclusive, other facility services may be considered as well.

### LARGE REDUCTION POTENTIAL + EASIER IMPLEMENTATION

In-house or outsourced, janitorial service is the best candidate for zero-based servicing because of its spend size.

End-user expectations will need realignment to the new economic servicing levels. But that should be covered in the step mentioned above: 7) Develop Communication Program.

### MEDIUM REDUCTION POTENTIAL + CHALLENGING IMPLEMENTATION

Security guard service is another of the larger service spends, but it brings up questions of risk, liability and indemnification.

Though the potential to reduce spend is here, the fear of lawsuits is large too.

Security is a good example of the inherent challenge of justifying spend on prevention. How do you prove your prevention worked? How do you know your spend levels actually prevented it? Or were you just lucky?

Unfortunately, past performance is no indication of future results. There's no formula for a direct cause and effect between security service spend and elimination of risk. Otherwise, contractors would guarantee elimination of risk for extremely large spend.

If the liability issues can be covered, there's room for cost reductions.

### LOWER REDUCTION POTENTIAL + MODERATE IMPLEMENTATION

Landscaping and engineering services have lower cost reduction opportunities due to the size of their spend.

Also, there are potentially sizeable failure costs in replacing plantings or equipment if you get the design or implementation terribly wrong.

## Summary

- Zero-based budgeting is a desperate measure for desperate times
- Zero-based budgeting builds specs from absolute needs

- 10-Steps of zero-based budgeting include:
  1. Enlist an Executive Champion
  2. Select a Likely First Win Service
  3. Create a Design Team
  4. Educate before Designing
  5. Identify Contributions, Failure Costs & Absolutes
  6. Specify Service from Ground Up
  7. Identify Success Metrics
  8. Develop Communication Program
  9. Outsourcing & Procurement
  10. Identify Pilot Site/Area

When the current situation has no way out, seek a way further in.

Good luck.

Image by [Ricardo Liberato](#)

## About Service Performance

We help customers and contractors receive more value from their service contract relationships.

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