

How does the service provider perform?

John de Croon

17 February 2012

In the previous period a lot of belote is played¹. The roles are clear between the Asset Owner, Asset Manager and Service Provider. The Asset Manager now starts to wonder if the Service Provider performs according to standards and at competitive costs. But also Service Providers ask themselves how they perform. The question is how to determine it. There are different types of methods. You can think of benchmarks, market testing, an image study, a trend research and an audit.

In a benchmark you compare a company with (comparable) companies or departments, processes or products. Market testing is the periodic tendering of a part of the work, so that comparable rates for the work are obtained. An audit is an examination of (mostly processes) of a company, often with the aim to determine whether these processes meet a standard (eg ISO9001, 14001 and PAS55). In an image study the external perception is measured by one or more participants, which makes it less specific for asset management. A trend research is an iterative study comparing trends in a given field. The other methods may be executed periodically and are thus a trend research. Now we elaborate on the benchmark and market testing.

| Method | Advantages | Disadvantages |
|-----------------------|---|--|
| Benchmark | <ul style="list-style-type: none"> Provides quantitative information Internal reference data often present A lot to compare: Products and services (eg price vs. quality), life cycle costs, primary processes, supporting processes | <ul style="list-style-type: none"> Sometimes difficult to find participants: the advantage is not always clear and fear that a competitor gets the data A lot of effort to define the methodology Difference in interpretation of KPIs Often more difficult to measure market conformity than with market testing Largely on paper so that possibility for asking more questions is limited Additional interviews necessary to review quality of supplied data |
| Market testing | <ul style="list-style-type: none"> Relatively little effort Very specific comparisons based on real market data | <ul style="list-style-type: none"> Often for only part of service possible. Therefore gives a limited overview Very strenuous if EU procurement rules apply If required is that 100% of services must be carried out internally, method is not applicable (if the method is applied but no purchase orders are provided, commercial contractors will not cooperate the next time) |

I have been involved in many asset management benchmarks. When a benchmark is properly executed, it is a nice way of obtaining insight. But make no mistake. The effort is huge and finding suitable participants is not easy!

¹ See our column on roles in asset management 'Sense and nonsense of splitting Asset Management roles'

When the decision is made to carry out a benchmark, the question then is what to benchmark and with whom. Products cannot be compared with companies outside of the industry and life cycle costs are not comparable. But processes can be comparable and new insights can be obtained². If a company wants to compare costs or rates, then a comparison with peers is needed. Experience shows that the participants sometimes answer questions 'in their favour' (look how well we perform!). Therefore it is often necessary to verify the results with the participants. Benchmarks can also be threatening. Potential participants might have the idea that sensitive information becomes available to a competitor or one sees no direct benefit in participating. Hint: reward the participant for the effort (e.g. a real opportunity for a contract or hand over a report containing anonymised scores when the benchmark is finished).

Do not ask too many questions: there must be a good balance in the effort versus the added value for stakeholders. Half-completed questionnaires which mainly contain less relevant data do not make sense. Also, not every company is able (for political reasons or competitive considerations) to provide for example certain costs a high level of detail. For participating companies it can be important that they are compared with companies with similar size and scope. Also note that completing questionnaires is time consuming. Often an authorisation by the participant is needed and this takes time as well.

In addition to substantive knowledge also analytical skills, communication skills, persuasion and sometimes the ability to hold an opinion are necessary. Participants sometimes (wrongly) think that they score better than they actually do. For the quality of the result it is necessary to get a clear view on these kind of issues.

Market testing can be an attractive method in the case of an internal service provider. Even if an Asset Manager mandatory has to make use of the internal Service Provider, the method often is politically feasible. For example, 5% of the work volume could be outsourced. The idea of market testing is that in this way different commercial contractors provide a quotation for the requested work. The rates for the requested work can be used as a guideline (benchmark) for the internal Service Provider. It is important that work, for which quotations are asked, is periodically granted to a contractor. Contractors would like to be rewarded every now and then for their commercial effort. When a contract is awarded, one can also learn from the market in the way how the contractor executes the work. Think of the way the work is being prepared, the amount of toolbox meetings which are required and the extent to which information technology is used (e.g. mobile workforce support). This provides valuable input improving the efficiency of the own internal Service Provider.

Market testing can also benefit the other way. The internal Service Provider could receive orders in the market at the same rates which apply internally.

Whichever method is chosen, for all methods knowledge is required to achieve good results. And in addition, it can take (a lot of) time. Therefore you get another suggestion: proceed with playing cards. Now that the roles are clear, you achieved the next stage in the belote game and other issues get on the table. Working competitive is an important issue. In an informal meeting sometimes better results can be achieved than through a formal review. If you need more analytical skills, then switch on to play bridge. When you are not comfortable with playing bridge: then carry out a benchmark or apply market testing.

John de Croon is partner at AssetResolutions BV, a company he co-founded with Ype Wijnia. In turn, they give their vision on an aspect of asset management in a weekly column. The columns are published on the website of AssetResolutions, www.assetresolutions.nl/en/column

² Innovations in an industry often start outside of that industry