

South African Facilities Management Market Quantification and Analysis Study

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**South African Facilities
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(SAFMA)**

Report written by:
African Response (Pty) Ltd

Contact:
Jan Wegelin
Head of Research
Jan.Wegelin@africanresponse.co.za

SCOPE OF THE STUDY

This survey was about the Facilities Management businesses. The core focus was the Facilities Management businesses and as a collective, how the rest of the industry operates.

The following industry players were included in the survey:



- ➡ Outsourced FM Service providers
- ➡ In-House FM operators
- ➡ Property Companies providing FM services
- ➡ Commercial sector
- ➡ Industrial sector
- ➡ Residential sector

INDUSTRY DEFINITIONS AND STRUCTURE

Defining Facilities Management (FM)

An enabler of sustainable enterprise performance through the whole life management of productive workplaces and effective business support services

The survey divided the industry into four service provider groups listed below with a short description of each:

Insource

Industry users insource operations

All services are operated by staff employed, in other words no outsourcing

Outsource

Outsourcing to FM contractors

Industry user outsource specific functions or needs on an ad hoc basis, managed by employed staff

Outsource

Bundled FM contractors

Industry user outsource a range of tasks to a contractor on a fixed term basis

Outsource

Integrated FM service (IFM)

Long-term contracts with FM providers to maintain facilities

Business size classification used for both FM and industry user samples:

Small businesses

Tier 1 (≤ 100 employees)

Medium businesses

Tier 2 (100 – 500 employees)

Large businesses

Tier 3 (>500 employees)

THE INDUSTRY BREAKDOWN FOR THE PURPOSES OF THIS STUDY

SOFT SERVICES

- Security
- Anti-industrial espionage services and debugging
- Furniture Management
- Gardening and Landscaping
- Hygiene
- Interior Plants
- Painting
- Parking

- Pest Control
- Relocation Management
- Risk Management
- Space Planning and Interior Design
- Sport and Recreation
- Sterile Services
- Storage
- Tenant Installation and Management
- Waste Management

THE INDUSTRY BREAKDOWN FOR THE PURPOSES OF THIS STUDY

HARD SERVICES

- 
- Access Control Systems
 - Air-Conditioning Systems
 - Audio visual provision
 - Boilers
 - Building Information Technology
 - Building Maintenance and Repair
 - Building Signage
 - Ceilings
 - Partitioning
 - Compactors
 - Construction
 - Data Cabling
 - Electrical service
 - Lighting provision

- Energy
- Utility Management
- Fire services
- Health and Safety Audits
- Internal Signage
- Escalators
- Lubrication Maintenance
- Mechanical Services
- Meter Reading
- Planned Maintenance
- Plumbing
- Pressurized Gas
- Re-lamping
- Security Systems
- Water Treatment

THE INDUSTRY BREAKDOWN FOR THE PURPOSES OF THIS STUDY

BUSINESS SUPPORT SERVICES

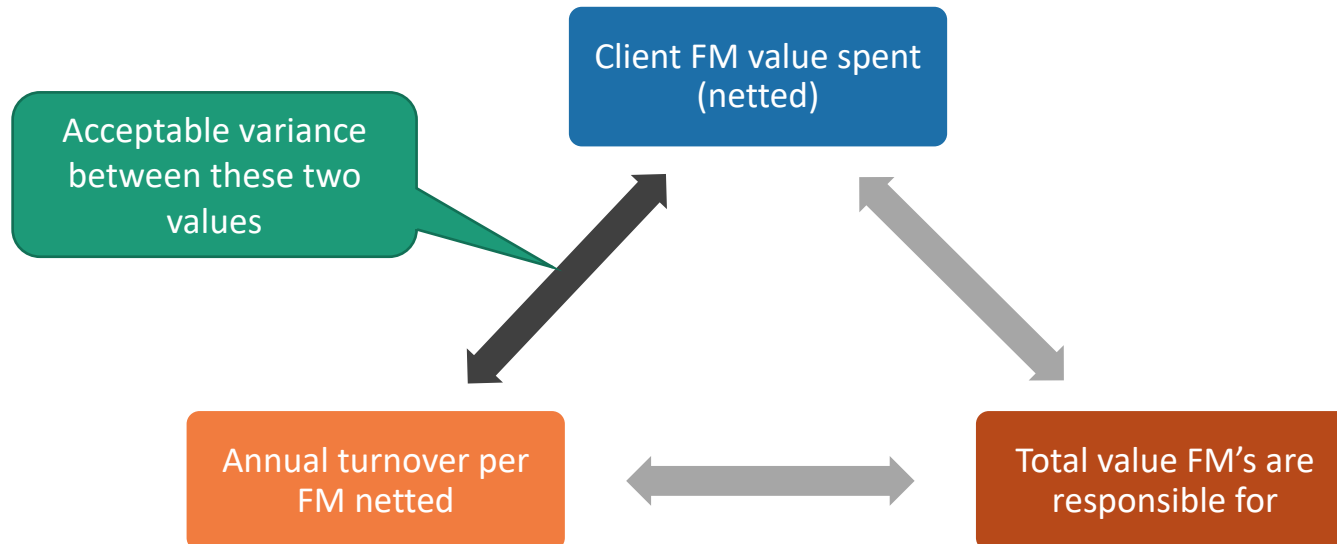
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- Archiving and Paper Storage
 - Asset Management
 - Budgeting
 - Car Wash
 - Catering
 - Chauffeur Services
 - Conference Facilities
 - Contracts and Accounts
 - Courier Services
 - Crèche provision
 - Distribution Services
 - Document Management
 - Environmental Impact Management
 - Florist and Concierge
 - Inventory Control
 - Laundry
 - Mailroom and Postal Services
 - Messenger, Transport and Taxis
 - Non-core Procurement
 - Project Management
 - Stationery, Consumables and Office Supplies
 - Printing, Photocopying and Faxing
 - Switchboard and office communications
 - Technical Library
 - Telecommunications
 - Occupational Health and Safety Act Management and Consultancy
 - Vending Supplies
 - Video Conferencing
 - Travel
 - Office and secretarial administration

DEVELOPING THE SIZE OF THE MARKET

A triangulated approach was followed:

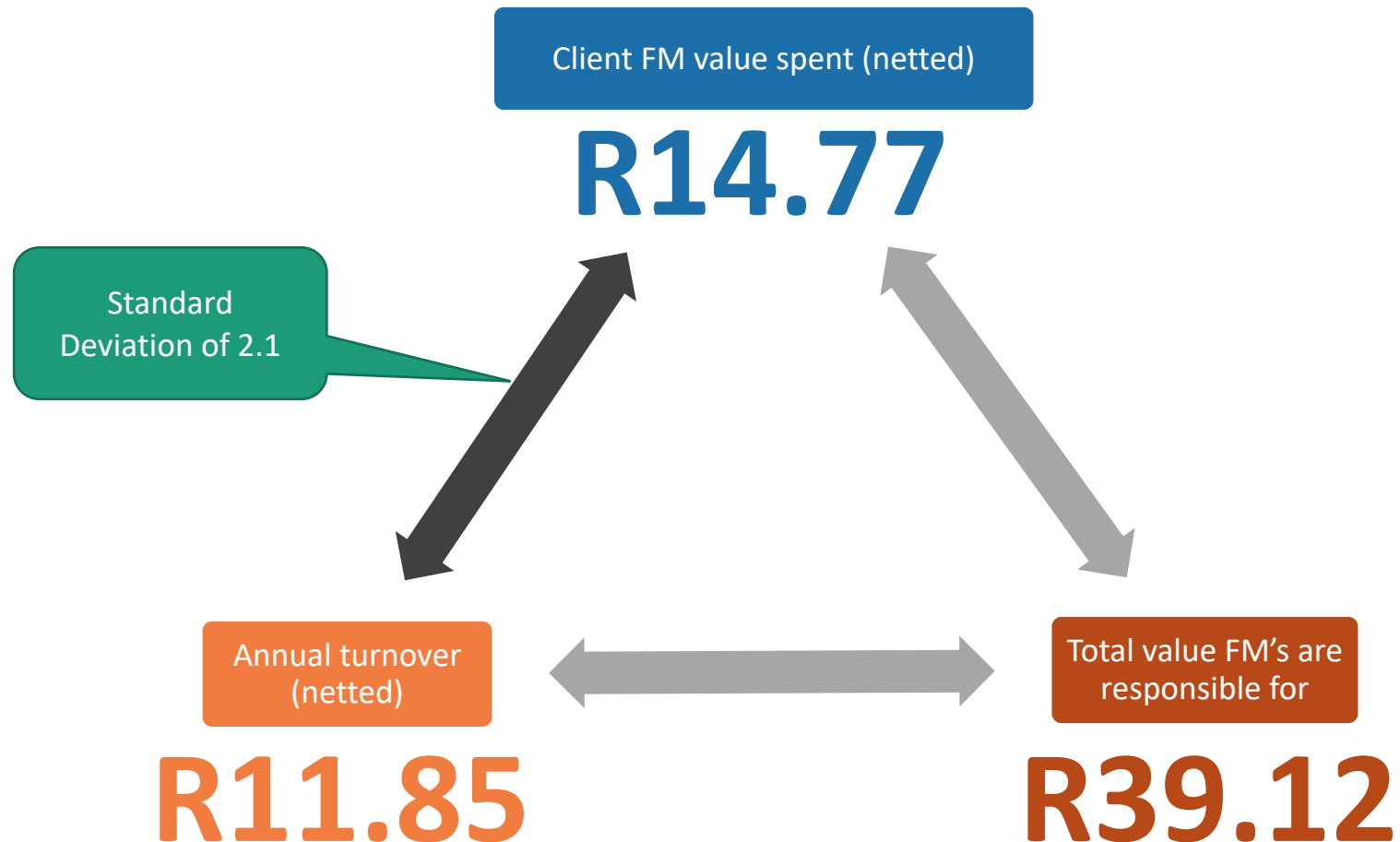
1. Determine the size of the industry based on operational budget by client business and calculate the percentage spent on FM's as a portion of total GDP by Tier
2. Calculate the total value FM's are responsible for – this is the total market size
3. Calculate the turnover per FM for 2016 both as a share of total facilities in the portfolio as well as contribution per employee

Figures 1 and 3 should match with an acceptable variance range.



THE SIZE OF THE FM INDUSTRY IN Rbillion

The industry sizes below will be explained in subsequent slides.



FM INDUSTRY GROWTH COMPARED TO GDP

Assumed stable growth rates with adjusted GDP growth illustrates the industry was worth R 22 billion in 2010, slightly higher than previous predictions, which may or may not be true if growth was as consistent as shown below.

Year	GDP (Formal economy)	GDP Growth Rate	FM Industry Size	FM Industry Growth Rate	Insource (self-provided) Growth	Outsource Growth
2010	R2 748.72	2.8%	R21.87	11.1%		
2011	R2 833.93	3.1%	R24.35	11.4%		
2012	R2 904.78	2.5%	R26.97	10.8%		
2013	R2 968.68	2.2%	R29.80	10.5%		
2014	R3 013.21	1.5%	R32.71	9.8%		
2015	R3 052.38	1.3%	R35.83	9.6%		
2016	R3 079.86	0.9%	R39.12	9.2%	2.8%	6.4%
2017	R3 116.81	1.2%	R42.64	9.0%	3.0%	6.0%
2018	R3 160.45	1.4%	R47.08	10.4%	3.4%	7.0%

Expected growth, as indicated by the FM's themselves indicate a realistic expectation in line with GDP projected recovery growth rates. The GDP future growth rates are based on latest available data.

The implication of these figures is either that the compound growth over the past 16 years has not been as high as, or the 2010 estimate of the size of the market was too low.

EMPLOYMENT IN THE FM INDUSTRY

Approximately 25 000 people are employed by integrated facilities management firms with a strong metropolitan focus and especially in Gauteng where most of the Tier 3 FM businesses are based. Note that the 25 000 only applies to full-time employed staff at integrated facilities management firms.

Sectors	FM Employee Sector Allocation	Proportion of Sectors where Services are Provided by FMs	Business operations
Commercial	42%	59%	47%
Public	44%	38%	23%
Industrial	15%	14%	30%
TOTAL	100%	100%	100%

The Commercial and Public sectors are well provided for in terms of staff complement, although not entirely in line with financial contribution to the businesses.



MAJOR CHALLENGES IN THE BUSINESS ENVIRONMENT

SKILLS SHORTAGES

- One of the major challenges in the facilities management sector is lack of skills.
- Lack of skills is a pervasive constraint in the South African economy generally, and this explains to a large extent the fact that the unemployment rate in South Africa remains one of the highest in the world.
- A recent survey undertaken in South Africa sampled 750 local businesses, revealing that the most difficult positions to fill included:



Skilled Trades



Sales Representatives



Drivers



Engineers



Secretaries & Personal Assistants



Technicians



Management & Executive Staff



Receptionists



Teachers



Accounting and Finance Staff



Admin Assistants & Office Support Staff



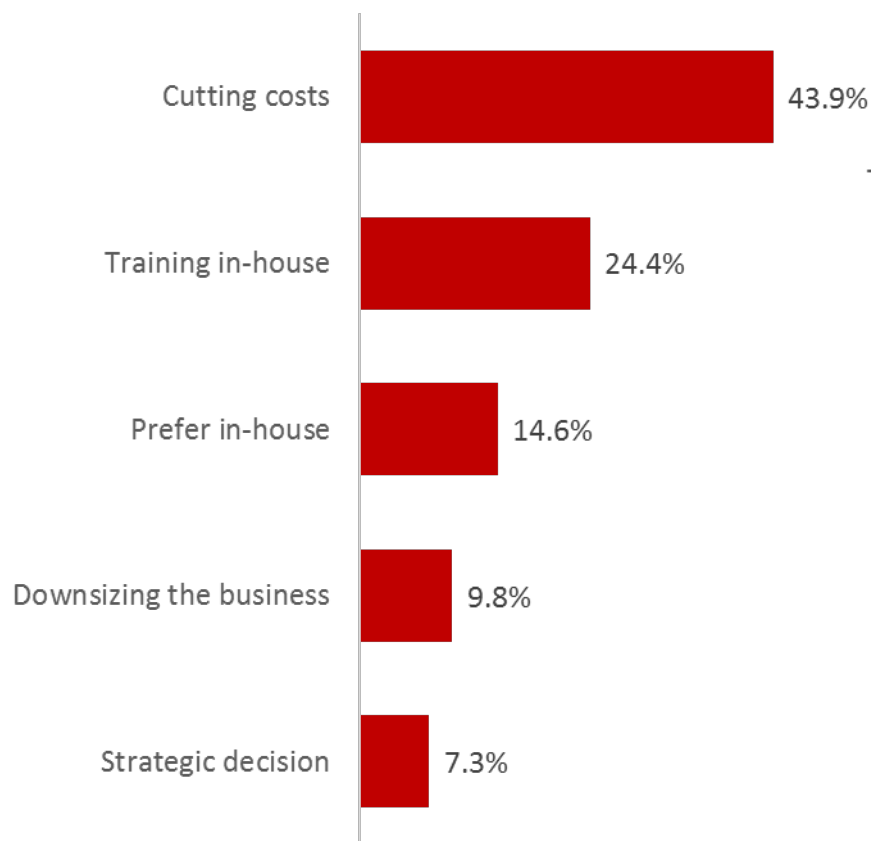
IT Personnel

- Other than professional and management level jobs, most of the skills mentioned are located within the ambit of facility management.

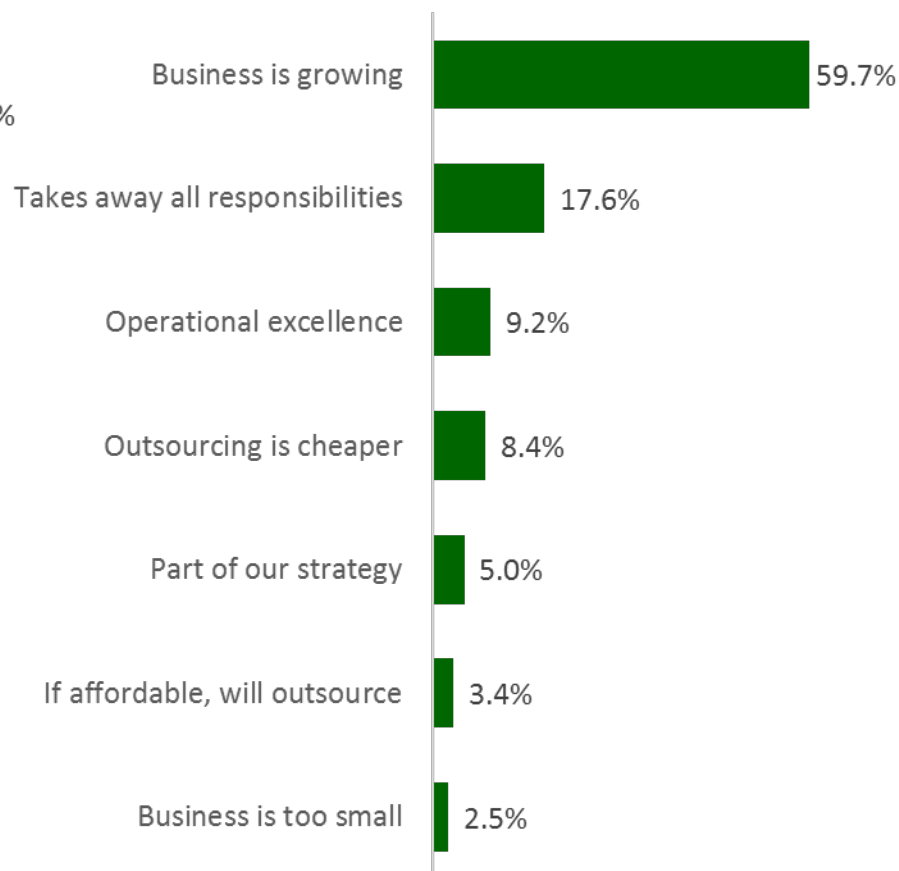
WHY INCREASE OR DECREASE OUTSOURCING?

Looking specifically at those who will decrease outsourcing against those who will increase, the reasons seen above polarise the motivations clearly.

Decrease Outsourcing

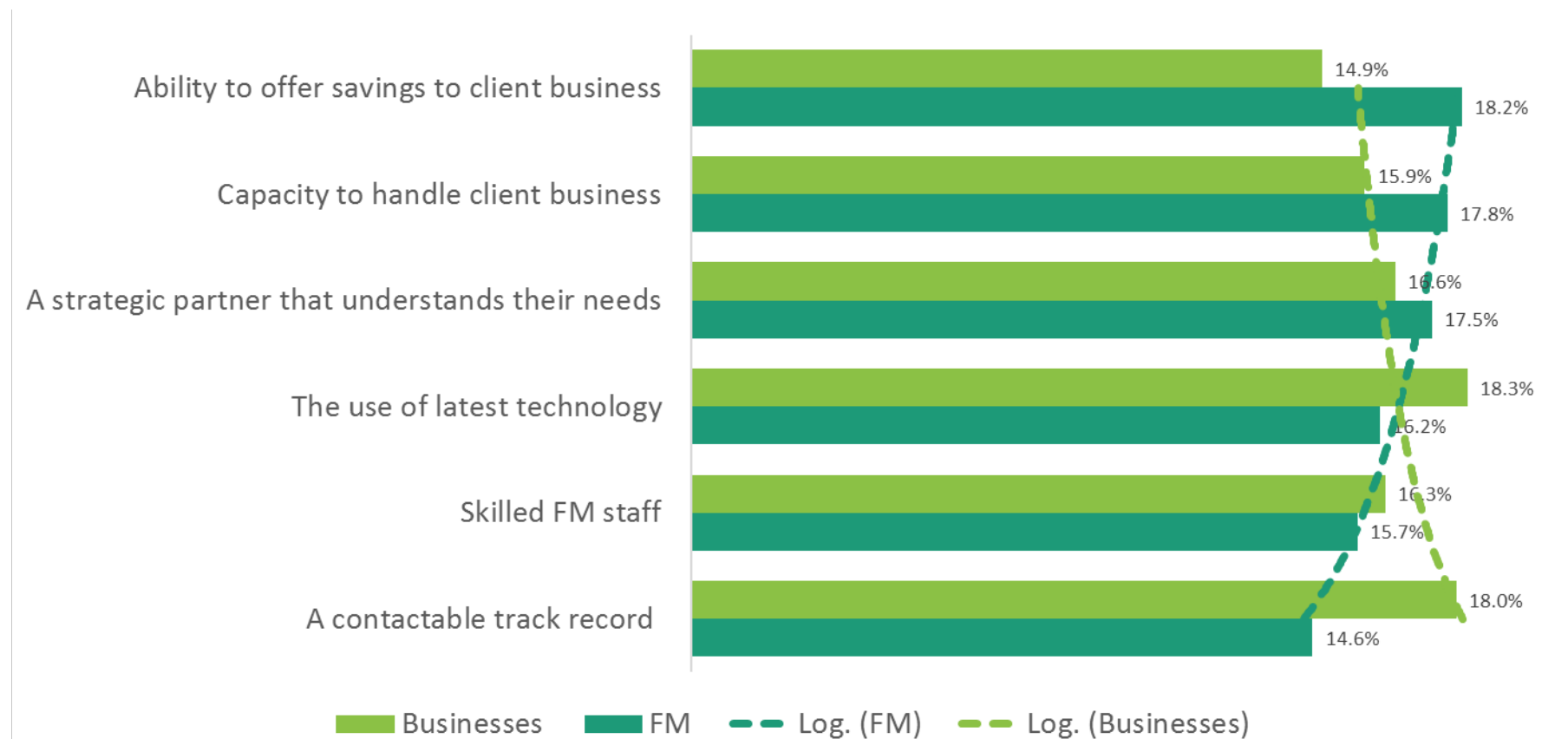


Increase Outsourcing



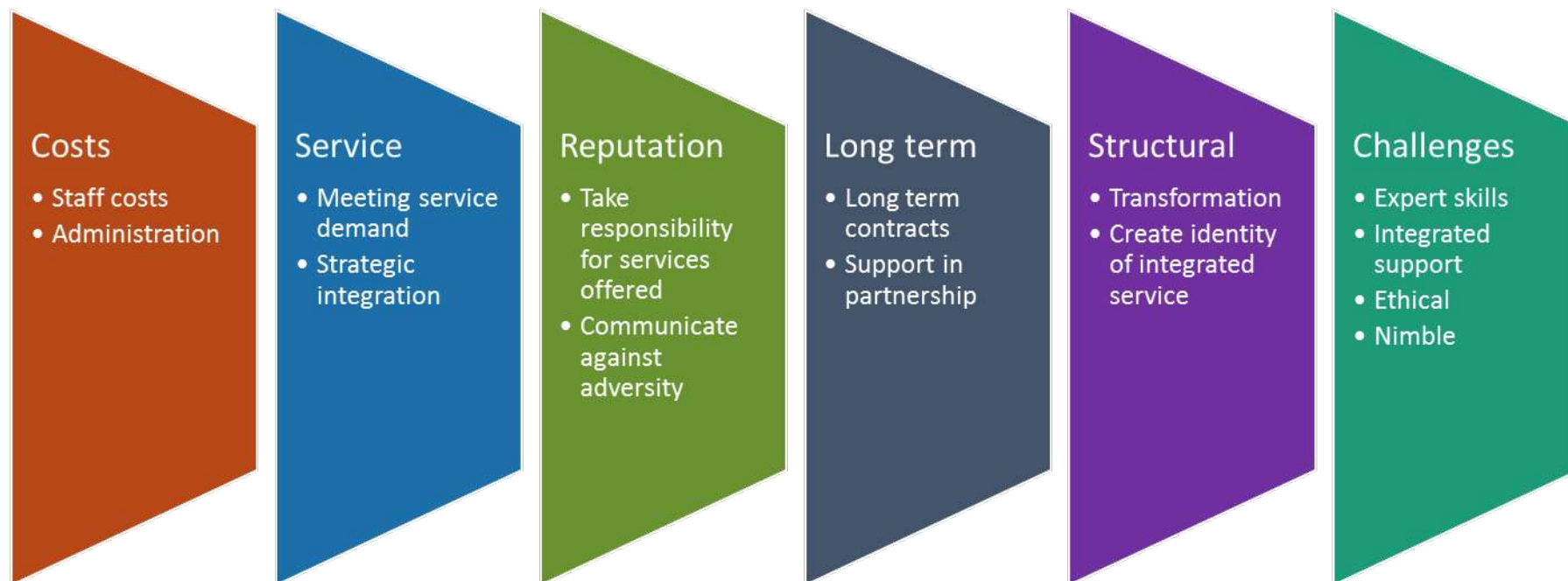
IMPORTANT ASPECTS WHEN SELECTING A SERVICE PROVIDER

Although the variance in scores are low, the interesting finding is how differently patterned the points of view are. The top three priorities for the FM's are mostly not as important for client companies. For clients there are mainly two aspects, the use of latest technology which would indicate some form of access or shared access for both parties and secondly reputation of the business. Certainly the attributes selected by FM's are important for the client, but keep in mind their needs as well



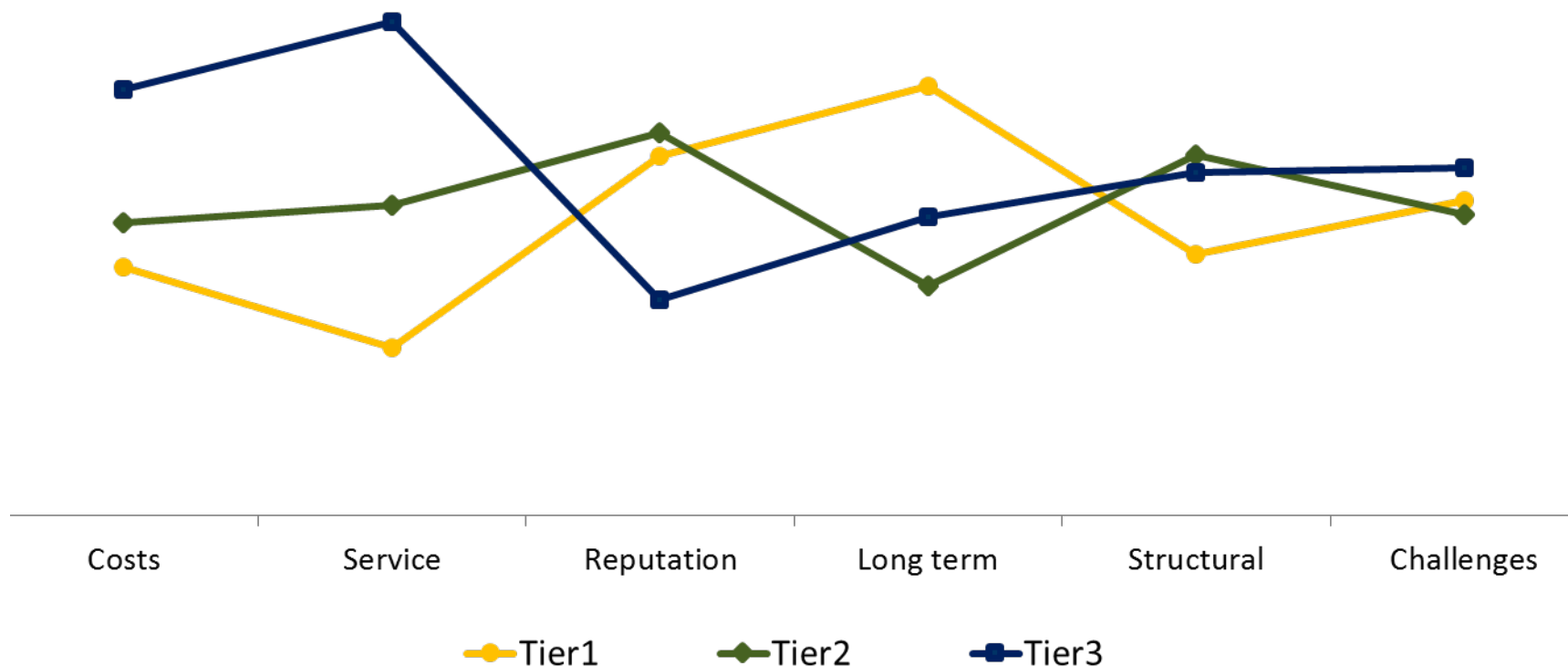
INFLUENCERS OF INDUSTRY PERFORMANCE

There are six key influencers of performance that clients value most. If addressed, and FM businesses can show their commitment to get these challenges right, these will work well as marketing strategies to increase the reputation of the service provider. From a SAFMA perspective, these challenges could be used to differentiate the industry from general and niche service providers



INFLUENCER SUMMARY BY TIER

In terms of business size, the six influencers are viewed different. For instance the service is the most important factor for larger businesses (Tier 3) and less important for small businesses (Tier 1). Due to the diverse nature of the sixth influencer, the distinction between the tiers are not pronounced



INFLUENCERS OF INDUSTRY PERFORMANCE

Costs

Cost drivers and administrative constraints

- The easiest way to cut costs is to outsource
- Statutory compliance increased in recent years
- Special labour regulations require extra admin
- Staff salaries cost more than maintaining the facilities
- Insourcing is more expensive than outsourcing

In terms of a business wanting and needing to focus on its core functions, it is probably most important to understand that someone is taking care of these and there is sufficient trust that the job is done well and to the benefit of the business. Administrative staff or support staff are generally non-core expenses but are required to maintain the business and its operations.



INFLUENCERS OF INDUSTRY PERFORMANCE

Service

Service demand and strategic integration

- Specialised security services to continue sustained demand
- The communication between FM and clients should improve
- Better to work with clients and understand strategies
- Businesses value the role of FM's

In terms of building trust and a healthy relationship, it is essential to know that the business is safe and secure and that those looking after the safety issues are also part of the business. Good communication and strategic partners reduce a sense of vulnerability and increases the value the FM brings to the client's operations.



INFLUENCERS OF INDUSTRY PERFORMANCE

Reputation Reputational risk

INFLUENCERS OF INDUSTRY PERFORMANCE

Long Term Complete and long-term engagement

- Clients work on 3 – 5 year contracts
- Clients tend to prefer on FM company to meet all their needs

Clients generally do not prefer annual contracts although they do support annual reviews. Therefore, the relationship is long term, the service plan is long term and often changes over time. To show the ability to commit for a long time and at the same time honour that commitment and willingness to meet all the needs will be a positive combination to help strengthen trust



INFLUENCERS OF INDUSTRY PERFORMANCE

Structural Structural concerns

- There are only a few BEE partners in the FM industry
- A fragmented industry with small niche service offerings

Transformation is important and increasingly so. These two factors should be read in conjunction, the BEE players that are active in the market mainly offer specialized services, therefore clients who do want to reap the benefit of BEE ratings, end up contracting a few service providers to meet all their needs.



INFLUENCERS OF INDUSTRY PERFORMANCE

Challenges A mix of industry challenges

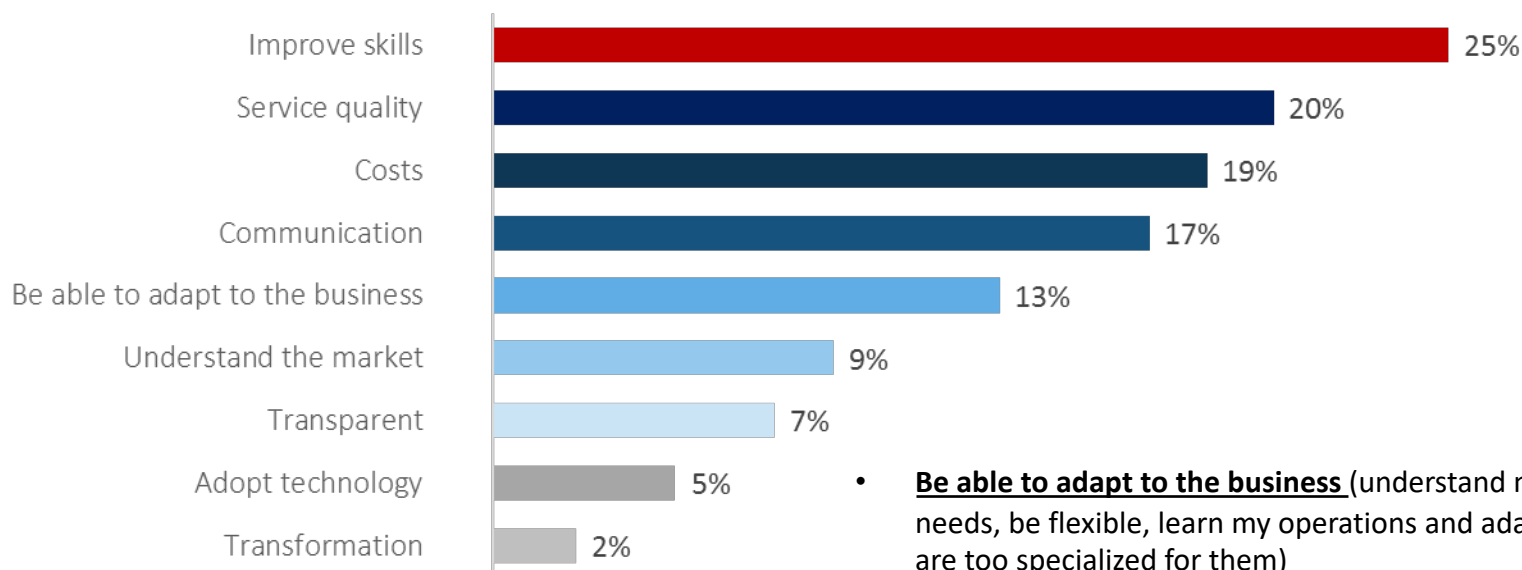
- Finding a competent and skilled service provider is difficult
- A fragmented industry with small niche service offerings
- FM companies lack the technical capabilities or skills
- A lack of transparency result in poor ethics and practices
- The big FM companies struggle to adapt

Lastly, a mix of industry challenges, some easier to address than others, but important factors that as a collective, influences the perception of the industry



WHAT SHOULD THE FM INDUSTRY DO TO IMPROVE?

In the previous section, strategic issues were addressed that influences the reputation of the industry based on perceived importance of factors. In this section, the issues get more tactical. Very clear indicator is that the staff working on client premises are the custodians of the brand, and they are doing the industry no favours



- **Improve skills** (better skills, more training, better trained staff, hire better staff)
- **Service quality** (better quality, higher standard, in-depth service, professional service builds reputation)
- **Costs** (too expensive, cost saving not seen, more affordable, more competitive, cheaper, costs too high)
- **Communication** (better communication, be available, follow up, check in, communicate so we understand them better)

- **Be able to adapt to the business** (understand my needs, be flexible, learn my operations and adapt, we are too specialized for them)
- **Understand the market** (learn more about the market, they do not understand the industry, this industry is different)
- **Transparent** (be ethical, open contracts, be open about what you do, they only sell a sales pitch, we do not understand what they do)
- **Adopt technology** (use more technology, understand technology better, be more inclusive using technology)
- **Transformation** (BEE, transfer of skills, more females)

THE BIGGEST THREATS TO THE FM INDUSTRY



From a FM provider perspective, there are a range of threats identified with no clear pattern emerging of any specific industry. The main threats are:

- Architects and engineering firms create a department to manage buildings but they do not have the skills
- Bundled service providers act as FM's and cannot deliver, they damage the industry reputation and charge more
- Cleaning and security services increased in recent years, making it more difficult to find good and affordable services
- Management agency of the business takes over the management of the facilities as well even though they are consultants
- Construction companies, real estate or property industry appoint landlords who act as FM's
- FM industry themselves, only those who can provide a customised approach with hands-on care will win
- Government regulations make it more difficult to hire staff and find skilled staff
- ICT industry has developed functions that replace human beings
- Mining industry moving more towards insourcing
- Operations in a business thinking they should run facilities as well
- Project managers get roped into facilities management, which is not their role and they cannot do the work
- Our service providers, there is little to no knowledge in the apprenticeship we come across, there are papers to prove they have been on the course, but one cannot send them out to do the work

CONCLUSION

The FM industry is still relatively young and has focussed most of its attention on the service industry and big multinational corporates. In the meantime, a plethora of other service providers emerged in the growing tertiary economy of South Africa proportional to primary and secondary. These service providers encroach on the FM reputation in good and bad ways. Below is a summary of the findings in this report:

- The industry has almost doubled to nearly R40 billion in the past six years in the value of facilities it is managing
- On average, 4.7% (or R144billion) of turnover is allocated to the management of facilities. Only 13.3% (or R19billion) of this value is allocated to what can be described as FM services
- 59% of the FM services are dedicated to the Commercial sector whereas 38% to Public and only 18% to the Industrial sector. Similarly
- FM services are slightly over-represented in the Tertiary sector (77% against 69% GDP contribution); a little under-represented in the Secondary sector (17% against 20%) and Primary sector (6% against 11%). This does not mean there is no more potential for growth in the Tertiary sector, on the contrary, Government, Transport, Communication, Wholesale, Retail, Catering and Accommodation sub-sectors are somewhat under-represented

CONCLUSION

- On the tactical front, there are clear indicators on how to improve the FM industry, the aspects are listed below in order of importance. What should be kept in mind is that although there is great overlap between these aspects and the strategic focus points, the list below drive the detail that will feed into the strategic recommendations.
 1. **Improve skills** – better skills, more training, better trained staff, hire better staff
 2. **Service quality** – better quality, higher standard, in-depth service, professional service builds reputation
 3. **Costs** – too expensive, cost saving not seen, more affordable, more competitive, cheaper, costs too high
 4. **Communication** – better communication, be available, follow up, check in, communicate so we understand them better
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