

Incentives Can Improve Performance, Reduce Costs

Sixth and final article in a series about managing outsourced service providers. Previous articles in this series may be found at our website, www.clariongp.com/newsletter.

Everyone likes a bonus, and your on-site service provider and local service manager are not exceptions.

A well-crafted performance-based fee structure, measuring both operational and financial results, is an effective way to both improve the managed operation and reward the provider for good work. Conversely, you can recover some costs when performance falls short or costs exceed budget.

The incentive plan must measure both operational and financial performance. Otherwise, you may have a high level of service at an equally high level of cost or poor quality and performance as the operator strives to bring costs down as far as possible. Either way, you lose.

Measuring operational performance is somewhat subjective. To be successful, you and the provider have to agree on a clear, specific and, to the extent possible, objective metrics.

Establish Metrics

These may include, for example, the results of customer satisfaction surveys and a scorecard based on customer complaints and their resolution. You and the provider have to agree on clear, specific and, as possible, objective metrics.

An effective way to measure operational performance is to actually see how it's being done. For this, you will need a format that lists the characteristics that are important to the overall success of the operation.

In the mailroom, metrics might include the speed by which mail is distributed (you'll need a timer) and accuracy – did the mail go to the right place? In the employee café, catering and related services, a checklist would include, among other items, quality of foods and beverages; efficiency of service and most important, food safety and sanitation.

Similar metrics can be developed for janitorial, maintenance and other services.

Share Financial Risk

Financial performance is relatively simple: the operation met budget or it didn't.

The operational incentive can be a component of the management fee. If the fee is \$50,000, make it a "base" of \$40,000, plus up to \$20,000 based on performance scores. An operator who scores well enough to earn the top incentive is well worth the extra \$10,000 fee.

For financial, 50% of the base fee can be at risk. The incentive can be 50% of any amount by which actual cost exceeds or is below budget, up to 50% of the base fee. That gives you a cushion against budget overruns. The operator may earn up to \$20,000 more, at no extra cost to you.

Clarion develops and administers incentive programs. For information, contact Tom Mac Dermott, president, 603/642-8011, Angela Phelan, senior vice president, 973/544-6223 or Ernie Wilder, vice president, 703/282-4040, or e-mail us at info@clariongp.com