The Watermelon Effect in FM Outsourcing

4 years ago

A thought piece by Tom Eveleigh, Global Category Manager, Sodexo

At an earlier stage in my procurement career, I stumbled across a problem. A year prior, the organisation that I worked for had negotiated an IFM outsourcing agreement for worth almost $10 million, with a footprint of over a quarter of a million square feet across eight sites.

We had spent the best part of the previous year sourcing and negotiating the contract and had exceeded our savings target for the project. So far, so good. Commercially, everything looked great. Operationally, we had tracked performance data for the first three quarters, and the performance of the supplier, as well as the overall relationship, at least from my perspective, looked strong. We held performance reviews, tracked KPIs on scorecards that were subject to monthly review, and the metrics across a range of categories looked good. Yet, our internal stakeholders weren't happy.

This problem, I have since discovered, is perhaps more common than it should be. It is a problem that our colleagues in IT outsourcing diagnosed decades ago, known as the 'watermelon effect'. The watermelon effect is, in a sense, exactly what it sounds like. It is the situation where, just like a watermelon, a supplier relationship appears 'green' on the outside, but is still 'red' on the inside. What this represents is a mismatch and a misalignment between the metrics that are being tracked in supplier performance assessments, and the value drivers that motivate key stakeholders and make a meaningful difference to the broader strategic aims of the organisation.

The watermelon effect, despite its peculiar name, is a serious problem for at least three reasons:

1. It causes misalignment between procurement or commercial management and procurement's internal (and potentially external) stakeholders. As such, it can end up weakening the internal relationships that are so critical for translating supply chain performance into enterprise value,

whether in terms of cost savings, customer satisfaction, sustainability or risk management.

2. It can weaken supplier relationships and supplier collaboration, and can mean value being left on the table, as the initiatives that are driving the supplier are not the aligned with the aims of the client's organisation. Closer alignment would mitigate the watermelon effect and mean that both client and supplier were pulling in the same direction.
3. It can result in the wrong decisions being made. If an organisation has, for example, a supplier who is perceived to be underperforming, there may be pressure from the from internal stakeholders to to look at replacing the supplier or taking remedial action, where what is in fact required is to examine the supplier performance management framework and ensure that greater alignment is achieved between internal stakeholders and the and the supplier.

So why does the watermelon effect occur? There are two key reasons:

1. Firstly, the KPIs being monitored must be derived from the critical success factors that key internal stakeholders are focused on. KPIs should be both relevant, and prioritised in a way that truly reflects the underlying value drivers that have demonstrable benefit to the organisation's overall goals. These value drivers may relate to financials, operational goals, growth/revenue or customer satisfaction, but regardless of the content, must always be captured, defined and shared as part of the supplier performance management framework.
2. Secondly, and perhaps more subtly, the service level agreements (SLAs) agreed upon contract initiation should be subject to periodic review. SLAs should be living, breathing, evolving document which are to be reviewed, monitored and updated with the with the wider team. Failure to continually insure that service levels and the *outputs* being delivered by the supplier track to the *outcomes* that the business is seeking, was the main cause of the tension in the IFM outsourcing example mentioned above.

So how do we resolve this problem?

1. The first step is to go back to basics: who are the stakeholders, and how are they impacted by service delivery? Map out these relationships. Oftentimes, an internal stakeholder will not be the end user experiencing service delivery, but they may be subject to negative feedback by other users who have no control over the service provider, but are much closer to the point of service delivery. Often, services are delivered not through a series of *diadic* relationships (as is typically conceptualised in a physical supply chain), but through *triadic* relationships, where the service partner has several touchpoints (see figure 1).
2. Once we know who they key stakeholders are, we need to understand what they value. Are they responsible for driving internal customer satisfaction, client retention, cost reduction, safety? These various factors need to be combined and prioritised in order to get a more objective picture of what drives value for our stakeholders and the organisation more broadly.
3. With value drivers defined, we then need to translate these into specific critical success factors for the organisation. Once we understand, for example, that being able to support site expansion in order to handle 25% more customers in the next 18 months, doubling the number of students on campus or hospital capacity would have a marked impact on the ability of the organisation to achieve its strategic objectives over the next fiscal period, we can start to bridge the gap between the destination that the organisation is aiming for, and what our suppliers can do to help us get there. These critical success factors can then be translated into KPIs, which can be tracked during

periodic performance or business review sessions, which can be broken down into expected service levels which can form the SLAs that the supplier works to achieve day-to-day and week-to-week. We might know, for example, that maintaining uptime or decreasing energy consumption on specific assets is going to contribute towards optimising the budget for a given profit centre, which will allow investment into further efficiency-generating investments; a critical success factor that the budget owner has previously determined.

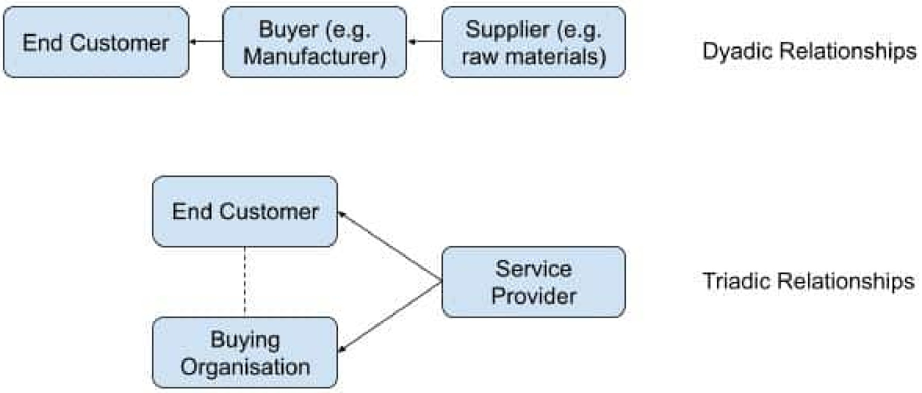

Figure 1: Physical/dyadic vs Service/triadic supply chains

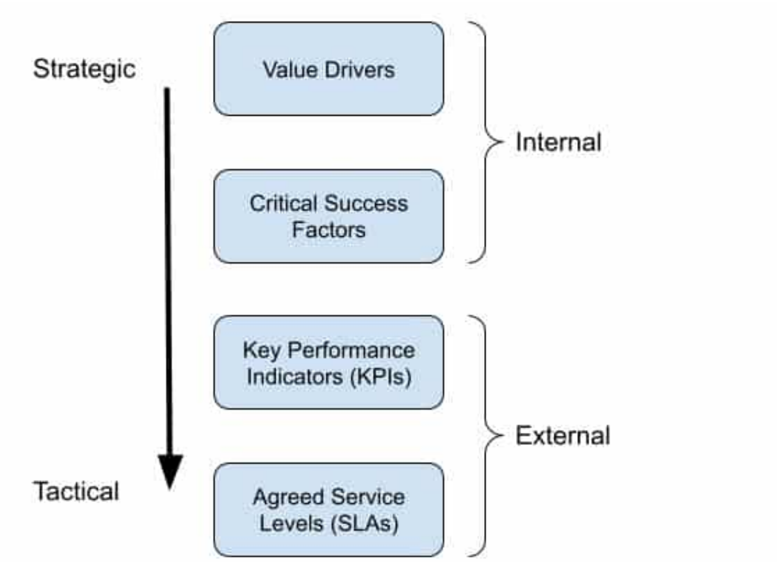

Figure 2: The cascade of strategic to tactical objectives

What we now have is a straight line from the strategic value drivers of the organisation, to the service levels that suppliers are working towards. The supplier now has a set of clear parameters that they can work with the organisation to achieve, to monitor, and to update where necessary, and can optimise service delivery to achieve these SLAs whilst minimising waste and cost to serve across the service chain. Key stakeholders can, and should, be involved not only in periodic review sessions, where they can provide feedback, but also be consulted on the relevance of the SLAs and KPIs to the broader organisational goals to ensure ongoing alignment.

Over the past 15 years, I have come to believe passionately that procurement can be a value enabler for organisations, not just in terms of managing supplier cost, but in utilising the ‘extended enterprise’ to reduce risk, enhance innovation, contribute to broader organisational aims and support the values of both shareholders and stakeholders. The watermelon effect is an evergreen challenge. But forming high-performing, collaborative partnerships *externally* begins with achieving alignment *internally*.