ENSURING PROCUREMENT COMPLIANCE IN INFRASTRUCTURE MAINTENANCE BUSINESS

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It is quite interesting to learn that in the business of maintenance service, lack of procurement compliance is one of the major causes of a serious revenue leakage for companies. While strong contractual agreement between the company and its sub-contractor is expected to be the core competence of this business, the lack of compliance to these contracts is its worst nightmare. This paper makes an attempt to establish how exactly non-compliance occurs and what role could outsourcing possibly play in achieving revenue protection for the business.

Modus operandi of Maintenance Service Companies

Many government entities, large corporate houses and residential housing complexes have long term contract with maintenance companies for the maintenance of properties across areas like housing, schools, and commercial buildings in serving different regions. In turn the maintenance companies subcontract it to multiple sub-contractors basis their trades. The sub-contractors manage maintenance of the properties typically for work such as electrical fitting, plumbing, carpentry, IT and other miscellaneous repairs/service. The sequence of activities in the value chain is as follows:

- Occupant/tenant/property owners raise request for repair, replacement or installation

- Work order generated with multiple job codes assigned to it. Job codes includes all sub-activities or resources required to complete a particular work order, for example, a work order for a fault with ceiling fan may include job code for buying a new fan, installation of fan, labor charges for a fixed duration

- Work orders get allocated to sub-contractors based on trade and region supported

- Sub-contractor completes the work at the site in the stipulated time

- Post execution of the work order, sub-contractor invoices the maintenance company and the maintenance company in turn bills it to its client

- Payment to the sub-contractor by maintenance company happens in parallel to payment to the maintenance company by its client

What can possibly go wrong?

While the model looks to be pretty straight forward, complications arise in managing the procurement compliance. Compliance has to be controlled at two areas, the sub-contractor claims and the invoices to the client. While the work order might have standard costs, the sub-contractor can still incur travel, labor call charges in addition to the core activity. These charges might be warranted in certain cases; however, there would be many cases where the billing is not justified. Issues such as these attribute to the revenue leakage as the maintenance company would not be able to pass on the

billing to its client. Revenue leakage could also be a result of various other factors like ignorance of warranty utilization, inventory management and work order allocation methodology. The revenue leakage can have a direct impact on the companies' revenue and margin significantly. Moreover, if the loophole is not rectified, the revenue leakage might reach any proportion.

How companies control the leakage today?

Today, companies get into a very reactive mode in taking measures for protecting revenue. They either do it in an ad hoc manner by employing the existing workforce as and when required or alternatively companies also form teams to manage the procurement compliance and ensure control of revenue leakage. However, this manual intervention for compliance check by the maintenance company comes at a significant effort and cost. To add to that, companies are left with no other choice than to utilize the highly trained resources for managing a relatively non-technical task. Moreover as of now, companies do not have a dedicated technology application for doing compliance check. Given the dynamic nature of the volumes, companies need to keep buffer resources to take care of the surge in volumes.

What makes it a good case for outsourcing?

An ideal maintenance service business should comprise of the following:

Feasible: The procurement compliance has all the tenets required for building a case for outsourcing. Starting from a feasibility perspective, the compliance check activity could be completed, decoupled and offshored to a third-party outsourcing service provider. Another merit of outsourcing to a third-party service provider is that any backlogs in pre-billing could be managed by a ramp-up of resources from the provider.

Reports and Triggers: Reporting of the process at all levels could be managed by service providers with separate reports flowing in to different stakeholders. A preventive mechanism could be set up by outsourcing where the service provider sends alerts when some threshold levels are crossed. This trigger could be used to raise an escalation by the service provider to the concerned team.

Technology Enablement: Service providers with a technology application could also help automate large part of the process thereby saving manual efforts. The process could not be automated fully as it requires a good amount of interaction with the subcontractors, tenants, local supervisors (from the maintenance service company). However activities such as work order allocation could be automated to a large extent.

Process Improvement: Service providers also come with a mandate of process improvement where they go into conducting a root-cause analysis of the cases. This becomes the cherry-on-top as the maintenance company is relived of the effort of deploying a consulting team or a quality team to take care of this activity.

Adopting Best Practice: The third-party outsourcing service providers are able to share the best practices basis their exposure to multiple clients across different geographies. Third-party outsourcing service providers having a good technology arm are also able to introduce the best-practices.

Calculating Return on Investment

Given the volume of transactions and the value associated with the transaction, it is more rational to go ahead with sample audits instead of doing a complete check on all the transactions. Doing a check on every transaction would mean a complete duplication of the effort. Sampling mechanism could be used and the sampling of the audit could be done based on the value of the transactions, specific job codes and regions. The Return on Investment could be shown by reporting of the cost avoidance (stoppage of revenue leakage) in dollar value as against the cost of outsourcing. Dollar value reporting of the transactions would give a clear picture of the revenue protection enabled; comparison with the cost incurred for revenue protection (service charges for outsourcing) would indicate the high quanta of Return on Investment.

Future Outlook for Procurement Compliance

Moving to a Proactive Approach: In future, compliance would become more proactive from being reactive. This would be achieved with the advent of better technology enablement as well as increasing maturity levels of compliance enablement at maintenance companies. With a proactive approach, the load of the compliance at the post facto stage would come down significantly.

Risk-Reward Commercial Model: Currently the popular commercial model is of time-and-material with service providers charging for resources deployed for the process. The service providers would become mature enough in due course and might be able to come up with a commercial model of risk-reward. In this model, service providers would share the risk of revenue loss and also gain based on the revenue protected.

The concept of outsourcing of procurement compliance in infrastructure maintenance companies would gain momentum and reach yet higher levels of maturity. Managing procurement compliance by way of outsourcing would soon become the standard.

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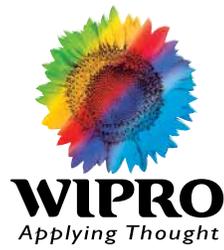
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