

105 IN HOUSE VERSUS CONTRACT SERVICES

INSTRUCTOR

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COURSE OBJECTIVES

At the conclusion of this session, participants will be able to:

1. Understand the differences between in-house versus contracted services
2. Describe the projects for which contracted services may be used
3. Analyze the advantages and disadvantages to in-house vs. contract services
4. Understanding the appropriate processes for determining either in-house or contracted services
5. Justify the choice made between operating structure

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The session will focus on unraveling the myths and misconceptions between the correct methods of servicing your venue, either via contracted services or services conducted in house.

For many years there has been much opinion, but very little documentation to assist a venue management team in making some of the most crucial decisions that will affect the short and long-term life of a venue.

Is there a right way?

During this session, an in-depth look at all the issues, stakeholders, and strategies that help make these decisions will be offered.

Introduction

Contract vs. in-house service - which is best? This is probably the most addressed question in venue management each year, but there is still no real evidence defining “the right method” of service for a particular venue.

This session will attempt to answer the question and look at the misconceptions and opportunities associated with contract vs. in-house selection. Criteria will be established that will allow the venue manager to determine what is best for a particular venue at any given time.

The question is not a simple one, as all market pressures, influences, and understandings must be researched and tabled. Even then, the method and ultimate selection will abound with “naysayers” and “instant experts” who all have an opinion that will differ from yours and that of your management team.

The vagaries of local politics, industry sector “norms” and “trends”, and relationships both known and unknown will affect the selection process. This effect may or may not be beneficial to the ultimate outcome for the venue or the event. At the same time, the process may serve to appease both the wants and needs of others.

So: how do we decide? What is the right answer for YOUR venue?

In-House or In the House

“Fit for Purpose” is the answer. What is best for your venue and the business partners who co-exist with you? What do you really need, and how can it best be accomplished?

The first steps in the process are the most important. The key is to remain completely open-minded in the assessment of in-house vs. contract proposals. Consider the core skills of your business unit, and how performing this service in-house might benefit the venue, owners, shareholders, and clients/users.

Conversely, consider how these same stakeholders would benefit from finding an outsourced solution to the business needs.

In House vs. Contract – Benefits & Liabilities

Depending on who is asked, a definite opinion will be given on the benefits of Method A vs. Method B. As a starting point, it is important to identify the differences between “in-house” and “in the house” or contract services.

In-House Benefits:

- Ultimate flexibility and control, as the staff are “yours”
- Control over selection of staff
- Venue culture understood and lived by entire team
- Initial lower cost analysis
- No contractual term
- You set the standards and can flex them to suit budget

In-House Liabilities:

- Tendency to not focus on core duty; always able to find other priorities for staff
- Thin budget can result in poor maintenance
- Employee complacency
- Bound by labor employment laws, on site contracts, and resulting liabilities
- Requires extensive management and supervision
- Typically, quantitative based
- Requires “head count” to be successful

In the House or Contract Benefits:

- Benchmarks and KPIs (Key Performance Indicators)
- Total accountability transferred to contractor
- Fixed and guaranteed pricing structure, negotiated at the RFP, benchmarked in an “apples vs. apples” environment
- Master/servant control mechanism
- Potential to build in flexibility clauses
- Labor employment laws and issues responsibility of contractor
- Requires less management once KPIs are set
- Venue still controls approval of contract management team

Contract Liabilities:

- Inflexibility resulting in unbudgeted variations
- Disjointed cultural approach to venue operations
- Term of engagement
- Renews
- Requires constant review staff selection and retention

The smart approach is to specify the need for the benefits and to tailor the Request for Proposal process to ensure that the potential liabilities are negated.

The EOI/RFP/Tender Process

More often than not, the right answer to the “In-House vs. Outsourced” question will emerge from the Expression of Interest (EOI)/ Request for Proposal (RFP)/tender process. This will particularly occur when the venue includes an in-house competitive bid as part of the overall process. In this manner a landscape can be set for the comparison of “Apples vs. Apples,” when possible, and it will be clear what specific level of service is required for the venue.

Typically (especially in the case of city or municipally owned facilities) this process will undergo extreme legal scrutiny, both internally and by the city “watchdog.” It is important to lay the foundation within this process that will deliver the results the venue needs.

It is important that you provide any potential contractor with all the relevant facts for them to make an informed proposal to you. That

includes;

1. Venue History; events, attendance and sales where applicable
2. Commissions to or Costs from the Venue
3. Projected events and attendance and special events during the term of the agreement.
4. Capital Requirements; no one knows the venue better than you, what improvements would you like to see.
5. Existing Equipment; list the equipment on hand that the contractor may use and determine who is responsible for repair, maintenance and replacement of that equipment.

So how does the venue manager achieve those results? Let's face it: the venue and event business is different from nearly any other environment in our day-to-day lives. Venue Managers are constantly battered with highs and lows, feasts or famines when it comes to the activity level in a venue. Any selected service must be flexible and able to accommodate the demands of the venue.

With this in mind, it is imperative that the EOI/RFP/tender process is led by the operators of the business. The expertise of executive management, financial management, and specific consultants must be called upon, to deliver to the bid table "real solution options" and not just "head count" in terms of bids.

The process must first focus on the end needs and then should apply stringent and measurable criteria that will ensure those desired outcomes.

There is no use having a local provider of security at the bid table just because he is related to the mayor and a "good guy," if he cannot add value to the delivery of service to users of your venue, or if he cannot deal with the rigorous highs and lows of the business.

Similarly with the catering in the venue: a good day-to-day concession operator may be suitable for the quiet times, but if they cannot rise to the occasion at a jammed concert or juggle the turnover complexities of three Disney shows in one day, then it is YOU who ends up with the problem.

Irrespective of the service required, whether it is janitorial/custodial, catering/concessions, security, front-of-house personnel, or any other venue requirement, a series of criteria questions must be established to ensure that a "fit for purpose" result prevails. These questions should

include the following:

Industry Experience: It seems crazy to even have to mention this. However, many RFP processes take for granted that the party making the ultimate submission will have the necessary and relevant industry experience at similar facilities or events. Ask for and check references. Require full audited financial statements for the past two years including a listing of current accounts receivables.

Assessment Criteria and Assessment Sheets: Establish the specific and measurable criteria by which you intend to assess the submission (whether it is from in-house or service provider) and provide this up front in the RFP. Be clear on which basis you will make your decision.

Management and Supervision: What levels of management and on-site supervision are being offered as part of the submission? What is the extent of their skills and knowledge in relation to your specific needs? Final approval of management should rest with the venue.

Labor Pool/Labor Supply: Ask where the staff is coming from and how the staff is to be oriented to your venue to ensure that the culture of your location is indoctrinated into the labor pool. If the bidder intends to totally outsource labor and merely add a margin, then perhaps you should only be seeking management and supervision services from them or in fact should be heading down the in-house route.

Commitment to Training: Identify the policies and procedures that will ensure a smooth start up, and ongoing commitment to training. How could the prospective service provider dovetail into your own training modules and systems, and who will be financially responsible for the training development and delivery?

Operational Reporting: How will you be able to manage the operations from an arm's length? What tools will be put in place to monitor performance on a daily, weekly, monthly basis?

Establishment of Key Performance Indicators (KPI's): These must

be specific to the usage of your building and not just a cut and paste from other similar facilities.

Flexibility: To ensure ultimate flexibility for your operations, encourage the provider to extend the boundaries to suit your business, not theirs.

Myths & Misconceptions

Let's identify and debunk some of the common misconceptions associated with the provision of service: in-house vs. contract.

Costs:

Some of the concerns lie with your business and its ability to clearly identify costs and liabilities in the in-house model. Time and time again you will hear that the contract service provider has to make a profit, and if that is the case should you not just carry out the service internally and save the margin? This may or may not be true. DISCUSSION

In the in-house model, areas such as Occupational Health and Safety may fail to keep up with industry trends and benchmarks due to the fact the service is only part of the business and not its primary focus. This can cost you money in the long run. In the case of a contract provider, assuming it is from within the venue management industry, the provider has the benefit of using purchasing power across many sites, equipment and capital cost sharing, and cross training of personnel, using accepted methods and models common to the industry.

Contractors should be able to utilize their experiences and expertise from other comparable venues in the industry to yours.

In many instances, the in-house model fails to address the ongoing costs that relate to the deployment of equipment and the employment of personnel, leaving the venue manager red faced at the end of the budget year when predictions can fall up to 30% away from results.

Items beyond salary, such as pension plans, 401K or other retirement programs, municipal, state and federal taxes, annual vacation, bonus plans, etc., all must be included within any in-house model to get the true comparison to the outsourced model.

There are also real costs in the acquisition and depreciation of equipment,

in addition to the regular maintenance and crisis management that are ongoing expenses. All costs must be considered.

Involvement and Control:

Another misconception is that once a service provider has been selected, that is the end of the involvement of the management team of the venue. On the contrary - services such as cleaning and security tend to be the larger cost centers of any venue no matter what model is chosen, and thus heads of these departments, in-house or contract, must be made to feel part of the overall venue team. Their input to the management and running of the venue is fundamental to its success.

Management must be involved in meeting at regular weekly intervals, along with other key venue stakeholders such as venue operations, customer service, marketing, etc. This must be considered mandatory if it is your desire to continue to raise the bar on standards of presentation to clients and patrons. Treat the service provider as an outsider and important parts of these important services will begin to fall away. On the other hand, embrace the provider as part of the team in management meetings, planning, and budget procedure, and the venue will reap the rewards. The service provider can add another link to the value chain.

Conflicts:

Will there be potential conflicts of interest? Building naming rights sponsors, general sponsors, equipment providers, caterers, cleaning, and security are part of everyday venue management life and must be dealt with as individual issues. In some cases, an outsourced provider will be selected to deliver one service, and another competing or conflicting provider to deliver another service in the venue. Professional management and disclosure up front of the potential issues will generally overcome these concerns.

Employees (“Head Count”):

Constant pressures are placed upon facilities regarding the total number of personnel to be employed. Is outsourcing the solution to this problem? One cannot simply outsource the labor component without giving regard to management and supervision needs. Dodging head count in this manner tends to create excessive costs at the management levels and can in fact cause management to have less time to concentrate on core business due to the time required to effectively manage the outsourced labor contract.

Double Standards:

If service is in-house, the misconception is that you will cut some slack for the service provided. If service is provided by an external entity, flexibility is less forthcoming.

We have all dealt with the double standards of in-house vs. contract. The in-house cleaner who assumes the role of confidant and break-room buddy and no longer concentrates on the quality cleaning product versus the contract provider who must deal with suspicious management placing paper clips behind the door in an attempt to “catch them sleeping”. Or how about the in-house caterer who provides a poor-quality meal on event day vs. the contract caterer who gets hit with serious complaints the last day of a six- game home stand because there is packaged sugar instead of sugar cubes. Do you oversee each situation and enforce rules equally?

You must evaluate the performance of both types of service providers fairly and on the same set of standards in order to ensure the highest quality of service delivery. Don’t get caught in the trap of “sticking up for your own.”

Opportunities

The process of selecting the right method to service your venue will uncover many other opportunities to add value to your business. Benefits can be tangible and measurable, or intangible.

Many of the services necessary to operate your venue eat up a sizeable piece of your venue budget. One tangible opportunity is to encourage return investment by an external service provider. This investment could include:

- Venue naming rights
- Internal and external signage
- Corporate expenditure: club seats, suites
- Entertainment expenditure: concerts, show, art
- Corporate functions held in your venue
- Sponsorship of venue-driven events and initiatives
- Security deposits: in the case of complex contracts, this can ensure performance

But always evaluate the true costs of using your partners' capital.

Other tangible opportunities include joint marketing and promotions and sharing charitable activities.

Intangible benefits are harder to define and difficult to measure. However, we all know the perceived benefit of having a recognized and respected business partner on board. These types of business associations can be priceless.

Summary

There is no straight answer to the question of in-house vs. contract service provider. The answer for your venue lies in what is best for you at the time, considering all the elements, all the time. This session can merely scratch the surface and hope to begin the thought process for you.

At the end of the day, the selection of in-house or contract is not what is most important. What is key is the selection process itself and the ability to ultimately say, "that service is in our house".

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