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PE Firm: Services Industry Insights for Diligence

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Conducted 83 in-depth phone interviews with individuals familiar with TARGET services providers

- Interviewed facilities and procurement employees across wide range of industries
- Discussions conducted over the phone with an average interview time of ~30 minutes
- 14 participants are employees of companies that use TARGET

Annual spend on TARGET services has been increasing and is expected to continue to increase

- 90% of interviewees report growth in last 5 years, anticipated growth of 10-20% in next 5 years
- Half expect no impact of recession on spend; others predict ~10-20% reduction
- Pricing typically structured as fixed-fee model, with decisions made at national level for larger players

NPS of providers is low, with key purchasing criteria of quality, service, price, and national scale

- Competitor providers with NPS of 14, retail highest with 27
- View of TARGET mixed, with NPS of 7, positive view of management and scale, poor view of quality
- TARGET customers believe provider quality is very important yet rate TARGET poorly on satisfaction of quality

Low likelihood of switching providers in near-term, despite a contract process that allows movement

- Contracts tend to have 3-year terms, with formal RFP processes / requirements
- Provider share of wallet changes based on performance, but termination requires long period of issues
- TARGET customers as likely to expect to switch providers in the near-term as others

Openness to some disruptive players (e.g., real estate "one-stop shops"), but less so to pure play tech

- High awareness of real estate services bundled players, but generally prefer direct providers
- Self-performers preferred for most services; low awareness and interest in tech pure plays

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Project background

CLIENT is evaluating the potential acquisition of TARGET, a large player in the TARGET services space, and is seeking support with phone interviews.

CLIENT is seeking to better understand the TARGET services industry from the perspective of facilities and procurement managers who are instrumental in the buying decision for these services.

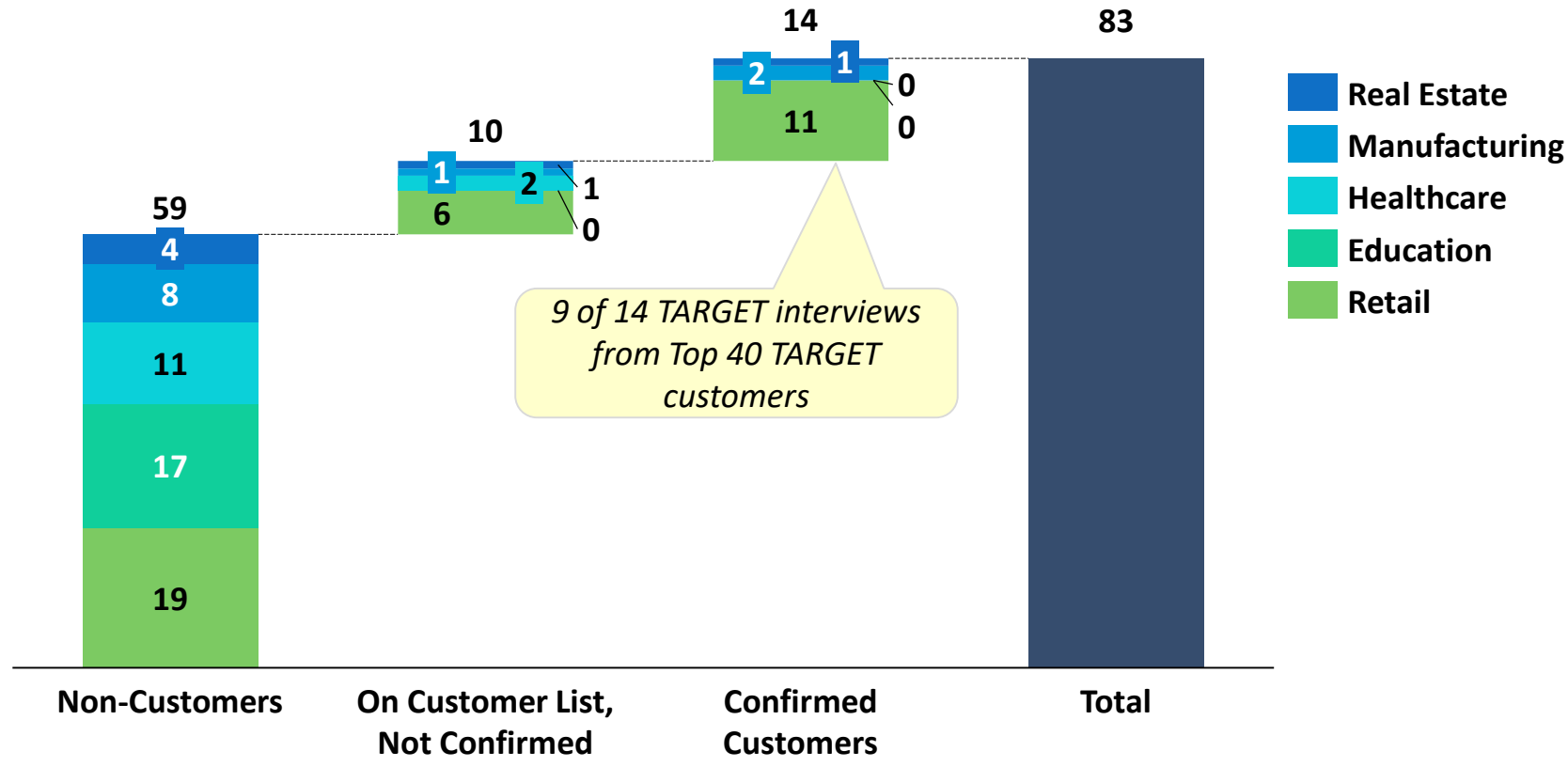
CLIENT would like to learn more about prospective customers (prospects) in several segments, including Retail, Education, Industrial Manufacturing, and Healthcare, as well as TARGET's customers. Topics to address include the role of large real estate companies versus a direct model, market pricing, industry spend, anticipated trajectory of spend, key purchasing criteria, and the potential disruption of SMS Assist's outsourced model.

Project status

Key Activities & Deliverables	Status
• Design interview questionnaire with input from Client	✓ **Complete**: Completed July 30th
• Conduct ~30-min. phone interviews with 60 individuals: ○ Mix of TARGET customers and non-customers (more non-customers) ○ Mix of participants across industries: Retail, Education, Manufacturing & Healthcare	✓ **Complete**: 83 interviews completed with ~30-minute average length ○ 24 on TARGET customer list ○ 14 confirmed TARGET customers (8 hours spent with this group)
• Provide anonymized verbatim responses (in Excel)	✓ **Complete**: Shared; in separate file
• Share audio recordings (for interviewees who approve of recording) of interviews (with audio file link)	✓ **Complete**: Shared; in separate file
• Analyze results of survey, highlighting the key takeaways and supporting analyses (in PowerPoint PDF)	✓ **Complete**: Shared; this document

We conducted 83 interviews with facilities and procurement individuals across industries, including 14 TARGET customers

Completed Interviews by Category



Note: Customer list provided by CLIENT

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The TARGET service provider market has been growing, is expected to continue to grow, and uses fixed-fee pricing

Spend predicted to increase over the next 5 years	• ~90% report growth in annual spend over the last 5 years, typically ~10-25% • ~85% expect their TARGET spend to grow over the next 5 years, typically by ~10-20% • Drivers of both past and anticipated future growth primarily business expansion (e.g., expansion in number of locations) and higher labor costs (e.g., increased minimum wage, cost of living)
Minor reduction of spend expected in case of a recession	• Half of interviewees expect a reduction in spend in the case of a recession, generally ~10-15% • "[We would not reduce] by a lot actually. I think it's considered one of the required services. We'd be skimping on landscaping before TARGET." – Facilities Manager, Real Estate • "The budget would probably be reduced, and we would use more local vendors, mom and pops, rather than a national vendor." – Facilities Manager, Retail (Top 40 TARGET customer)
Pricing model typically fixed fee	• Pricing typically structured as fixed-fee model, accounting for ~90% of interviewee contracts • Price on a per square foot basis, varies significantly between companies and for different facilities; based on level of service, cost of labor
Decisions made at the national or regional level for larger companies	• Buying decisions are made at national or regional level for larger companies, local for smaller ones • Retail companies with notably higher rates of making buying decisions at national level • Most interviewees report no minimum size requirement to consider a provider, however, larger companies that prefer to operate with a national scale want a national presence
Scale & size matters for larger companies	• "We want to see their books in the RFP to make sure they're large enough. We try to avoid being the majority of business." – Mgr. of Real Estate Ops, Manufacturing (TARGET customer) • "Rule of thumb is we can't be more than 30 percent of their business … we don't want to put their business at risk if we were to end business with them." – Operations Manager, Retail

There are some variances by industry, notably higher standards in the education and healthcare sectors

Retail investment depends on customer experience	• "There's a certain expectation of what our company establishes for our buildings… we pride ourselves in consistency." – Company Management Director, Retail (top 40 TARGET customer) • "Our company is cheap so it's not much, they focus on quantity over quality" – District Facilities Manager, Retail (top 40 TARGET customer)
Education most impacted by unions & has higher standards for locations with children	• "We have a strong union environment. So any work that can be done in-house with Union employees is done that way." – Facilities Manager, Education • "The university would like to outsource more, but the union pushes back. It costs a lot more to do things in-house." – Facilities Manager, Education • "Locations where children go require that we work directly with a vendor… [to ensure we meet] all the rules associated with children and safety/security and certifications." – Facilities Manager, Education
Healthcare in-patient facilities have high standards	• "Hospitals look at customer patient surveys, how was temperature of food, was room cleaned daily, and so the contractors have customer satisfaction surveys. So a lot of these contracts have minimum scores that they have to meet." – Environmental Services Director, Healthcare • "We are reasonably recession-proof because of government contracts." – National Facilities Manager, Healthcare
Diversity becoming more important for all industries	• "They were also trying to get women and minority owned businesses into the system." – Environmental Services Director, Healthcare • "Minority owned is important to the company." – Facilities Manager, Manufacturing • "We look for local, minority owned, women owned, businesses and startups." – Facilities Manager, Education • "We try minority owned or women owned." – VP Procurement, Retailer (TARGET customer)

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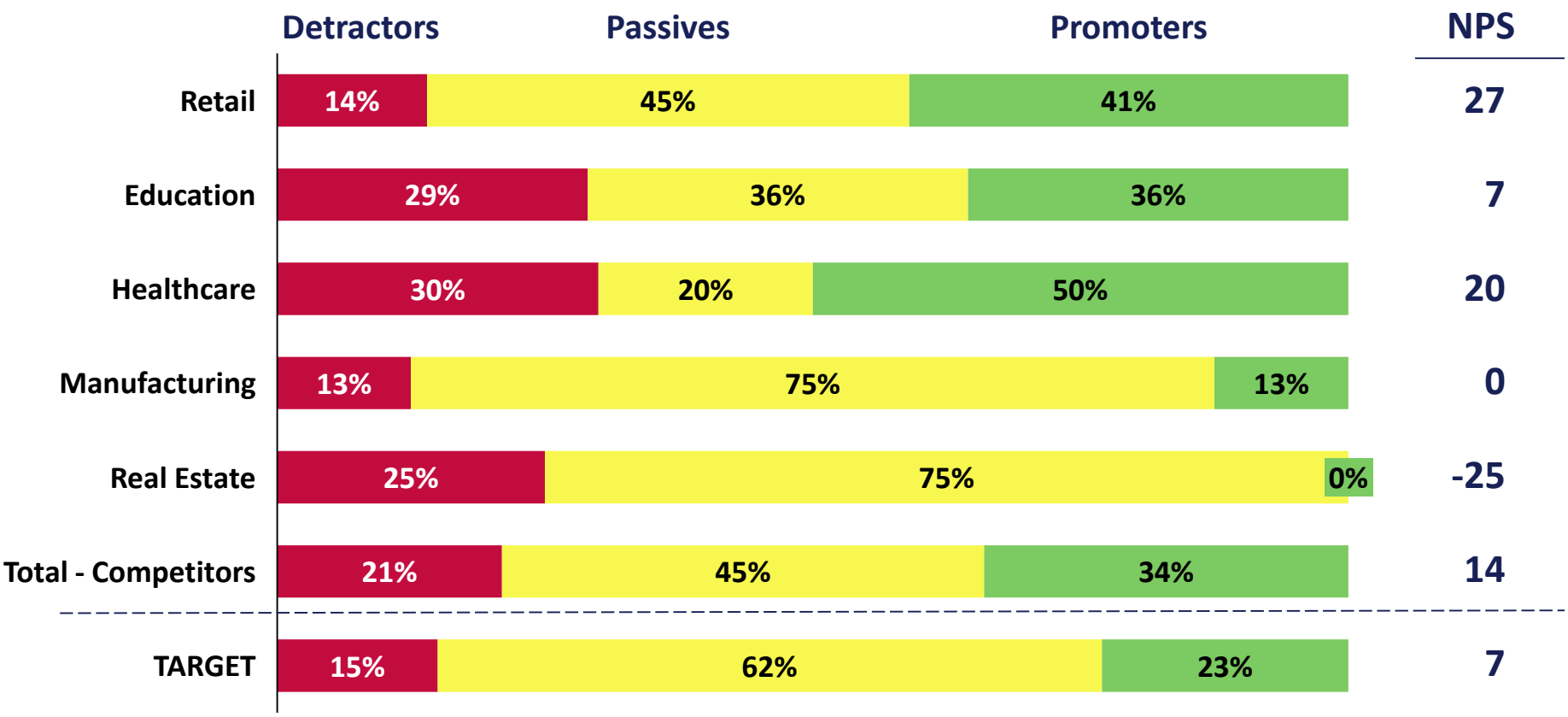
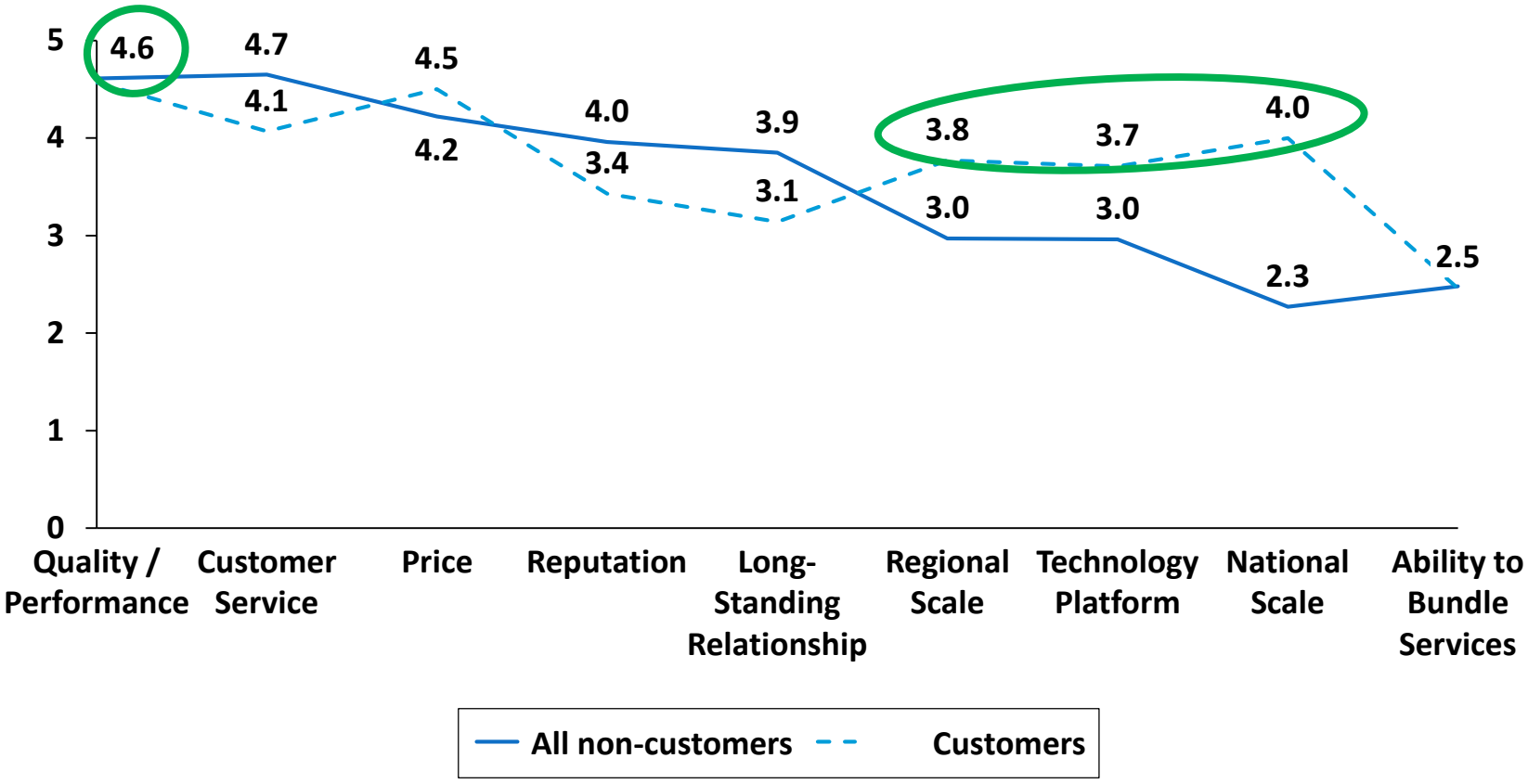
Net Promoter Scores are low, vary by industry, with TARGET below its competitors in retail

Net Promoter Score for Other Providers vs TARGET



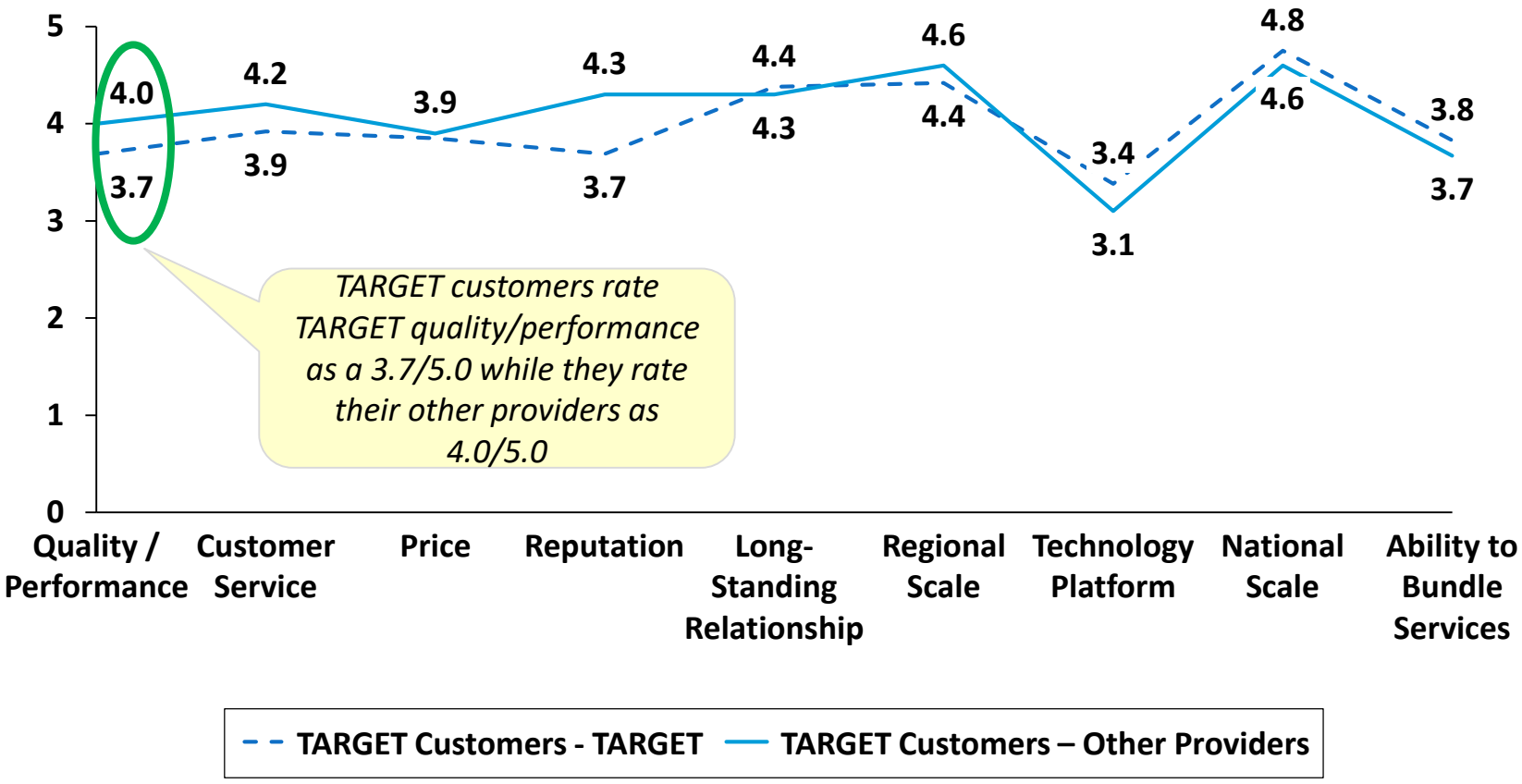
Quality, service, and price top priorities; TARGET customers view scale & tech platform as more important than others

Attribute Rating: Importance (1-5 Scale; 5 = Very Important)



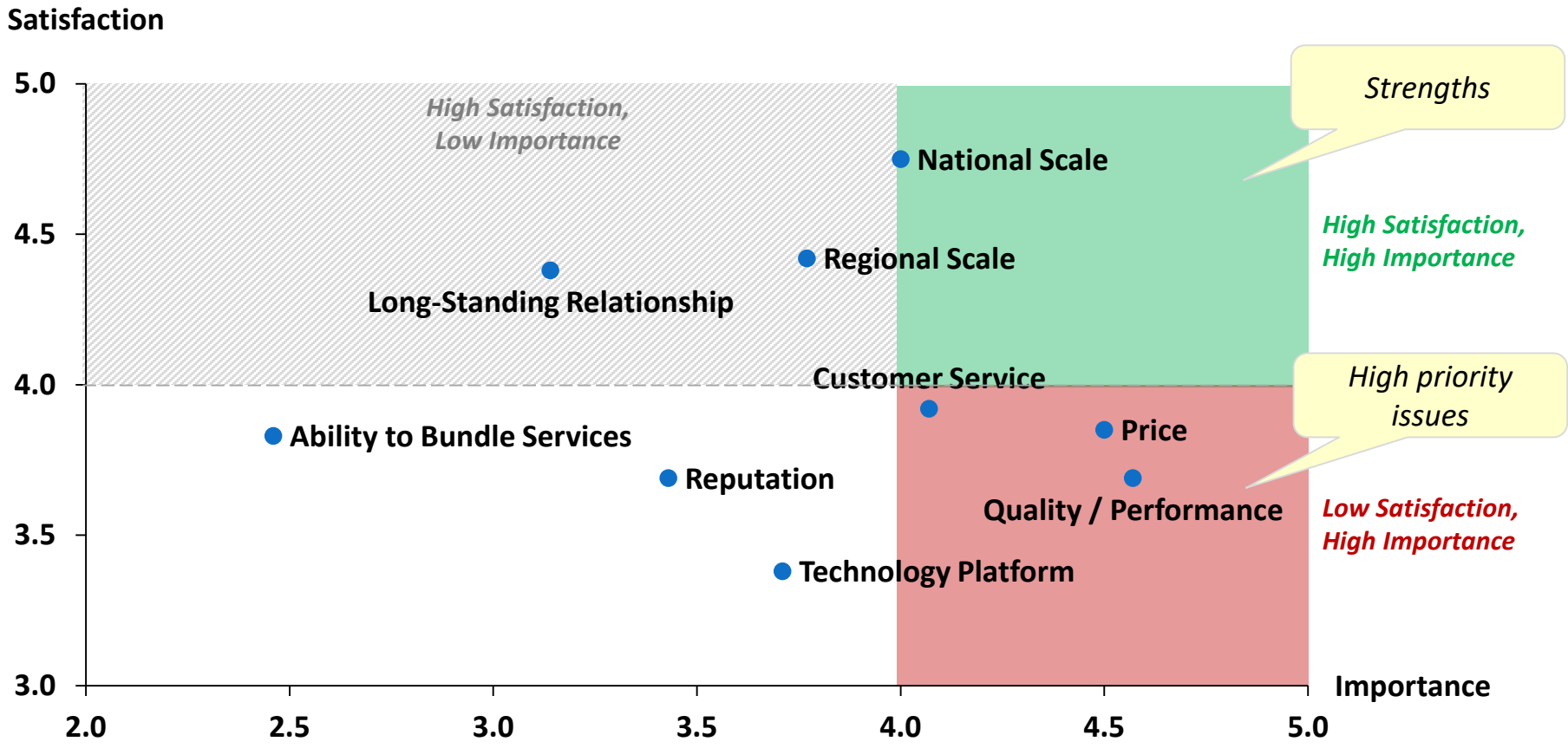
TARGET customers are slightly less satisfied with TARGET on most important attributes compared with their other providers

Attribute Rating: Satisfaction (1-5 Scale; 5 = Very Satisfied)



TARGET main weakness is quality / performance; national scale strength; relationships are strong but not important

Attribute Rating: Importance & Satisfaction (1-5 Scale; 5 = Highest)



TARGET customers have high opinion of management, concerned about quality; open to adding low-skilled services

TARGET customers most satisfied with management	• "Management style is great… have supervisors on site running the job." - Senior Regional Facilities Manager, Retail (top 40 TARGET customer) • "I would recommend TARGET's management." – VP of Operations, Retail (top 40 TARGET customer) • "[The] regional manager will do a free additional cleaning in the store if you have an event coming up. The operations managers in each store do a walk through in the store with a checklist and if it scores below a 5 the district manager and operations manager take action." – District Facilities Manager, Retail (top 40 TARGET customer)
TARGET customers least satisfied with quality and staffing	• "Quality of service is terrible, short staffed, have crew of 1 or 2 when needing 3 or 4 and can't get scope of work done in time window with this, people who be cleaning after the store was open." – Regional Facilities Manager, Retail (Top 40 TARGET customer) • "[Dissatisfied with] TARGET's… missed cleanings, quality." – Senior VP, Retail (TARGET customer) • "TARGET may overstaff a place because they don't understand its specific needs and so their cost is higher." – Director of Procurement, Manufacturing (TARGET customer)
TARGET's tech platform has mixed reviews; not a clear strength	• "They don't have any technology interface." – District Facilities Mgr, Retail (top 40 TARGET customer) • "When TARGET became a massive company, billing and invoicing got more complicated." – Procurement Strategist, Retail (TARGET customer) • "When we were procuring vendors, TARGET was the only one that offered that type of tech infrastructure and had the kind of data visualizations that could present at quarterly business reviews." – Vice President of Operations, Retail (top 40 TARGET customer)
TARGET customers open to adding services	• "We [add one-off services] all the time. We call the person on the local or district level and have them price it out and go from there." – District Facilities Manager, Retail (top 40 TARGET customer) • Open to new services as long as they are low-skilled (e.g., landscaping, window-washing, etc.)

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Contract terms make it appear that switching providers is easy, but changing the mix of providers more common

Contracts tend to have short terms & use a formal RFP process	• Contract length generally 3 years for larger customers, 1 year for smaller customers • Escalators for minimum wage, CPI, and living wage increases are very common • ~60% of participants report a formal RPF process; smaller companies less likely to use RFP • Many with a formal RFP process have a specific number of minimum bids required (e.g., 3 or 5 providers), approved vendors lists, and minimum insurance policy requirements • Larger companies require detailed information on provider finances to ensure stability
However, provider share of wallet tends to change rather than provider removal	• It is less common to bring in or remove providers, but fairly common to shift mix between existing providers based on performance, price, etc. • "TARGET has gone down about five percent due to loss of contracts. TARGET lost a little for poor performance." – Facilities Manager, Real Estate (TARGET customer) • "Fluctuates with needs of different markets and capacities of the vendors." – Company Management Director, Retail
TARGET customers as likely to switch providers as non-customers	• 35% of TARGET customers report it is "very difficult" to switch providers (versus 12% of non-customers) • However, about the same percentage of TARGET customers (19%) are "very likely" to switch providers within the next two years as non-customers (17%)
Providers tend to be terminated after a long period of problems	• Terminating provider relationships generally happen after 3-5 years of wo • "Lack of performance, lack of responsiveness to my feedback, I never fired a service they fired themselves." – VP Facilities, Education • "Poor quality and issues with management and supervisory staff and how they treated the TARGET staff." – Account Manager, Real Estate

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High awareness and openness to real estate "one-stop-shop" model, less so for pure play tech model

Most familiar with real estate management model, open but skeptical about exploring it	• 70% of interviewees either heard of the one-stop-shop model or had direct experience with it • "Receptive as long as they can deliver." – Facilities Manager, Education • "The service we received from CBRE has been good."– Regional Manager of Facilities, Retail • "We are looking for opportunities to bundle and if scale is there, and we want to consolidate services." – Operations Manager, Retail (top 40 TARGET customer) • "Too many middlemen will increase costs… too many layers." – Company Management Director, Retail (top 40 TARGET customer) • Some concern about this model displacing the employees as they play a similar oversight role • "That's my job." – Facilities Manager, Retail
Direct providers are generally preferred	• Most interviewees prefer working with a direct provider versus a real estate management co. • "Pure TARGET services providers are concentrated on TARGET work and expertise and we can deal directly with the national managers." – Facilities Manager, Education • "You tend to get better communication and response time when you are contracting directly." – Manager of Store Facilities and Energy, Waste and Disposal, Retail
Pure play tech model not appealing to most	• Most are not familiar with the pure play technology platform and therefore have not considered it • "There's no way to verify who the subcontractors are." – Chief Procurement Officer, Retail • Would be open to services like window washing that do not require high-skill or high-touch
Self-performing important for high value services	• "I like to see self-performers instead of subcontracting out to various vendors." – Senior Facilities Manager, Retail (top 40 TARGET customer) • Potentially open to subcontracting services that do not require highly-skilled specialization