MEFMA
Middle East Facility Management Association
جمعية الشرق الأوسط لإدارة الموارد
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1. Background

This report presents the results of a performance benchmarking survey of Facility Management “FM” providers in the GCC region, undertaken by MEFMA in collaboration with Protiviti Middle East. The findings are based on a survey that was conducted with 35 FM providers of varying workforce sizes across the United Arab Emirates (UAE), Saudi Arabia (KSA) and Oman.

Areas covered in the survey

Contracts
- Retention rate
- Contract length
- Bid success rate
- Price discounts

Labor
- Recruitment process
- Labor accommodation
- Training
- Churn rate

Financial
- Working capital cycle
- Labor cost to the firm
- Revenue growth rates
- Average EBITDA margin

Future Outlook
- Expected revenue growth
- Growth forecasts by line of services
- M&A activity outlook
- Expected EBITDA multiples

Survey Participants by size of workforce

- <1000
- 1000 - 2000
- 2000 - 4000
- 4000 - 6000
- 6000 - 8000
- > 8000
2. Survey Findings and Analysis

2.1 Contracts

FM is considered to be a commoditized industry. As such, end users are very price sensitive and contracts are relatively short.

Average length of contracts

60% of survey participants report that the average contract length is 2 years and above, which is lower than the average (5 years) in developed countries. However, respondents have observed that governmental and large corporates prefer signing longer contracts.

Average renewal rate of existing contracts

71% of respondents report a contract renewal rate of above 90%; cost being the main reason for switching to a new FM provider. Most FM providers do not face major performance issues with their customers.

Success rates

The success rate for new contracts has fallen because of greater competition:

• 53% of respondents have a success rate of 20% or less when bidding for new contracts
• Respondents in KSA report a higher success rate compared to the UAE, due to lower market competition
Average price discounts
The average price discount offered by FM companies at the Best and Final Offer (BAFO) is 9%. 63% of respondents do not lower their final bid offer by more than 10% of the initial price quoted. Instead, some FM companies alter their scope of work to negotiate

2.2 Labor
Complex recruiting, difficulty in retaining labor and capital intensive accommodation sites are challenges FM providers are currently facing

Lease vs. owned accommodation
Although owning labor accommodation is cost efficient, the majority of respondents lease more than 50% of their labor accommodation due to the capital intensive nature of owning accommodation sites and a preference to utilize capital in growing their business. However, respondents observed that leasing has several benefits such as:
- Increased flexibility
- Faster geographical expansion
- Lower business risk exposure to market changes

Training hours
FM providers are particularly keen on training their labor in order to familiarize them with the culture in the region, increase their efficiency and improve their performance. As per the survey, the average hours of training is 65 hours annually. Respondents also report that hard FM labor receive longer training hours compared to cleaning stuff.
Average recruitment time
Most respondents (82%) report an average recruitment time of more than 30 days and are facing challenges such as:
- Quota restrictions on visas
- Inefficiency of external recruiting agency
- Complex in-house recruiting
- Limited sources of labor (India, Nepal, Pakistan)

Respondents in private companies observed that government and semi-government FM companies have a cheaper and faster recruiting process due to lower restrictions (quotas, visas, deposits) allowing faster mobilization of labor and more competitive pricing

Annual labor churn rate
59% of participants (all from UAE) report a churn rate between 10% and 15%. This is due to:
- High competition for labor (GCC based)
- High demand for unskilled labor (e.g. for cleaning and janitorial services)

However, all KSA respondents report a lower churn rate of less than 5%, due to a lower competition

2.3 Financial
Although 80% of respondents report an annual growth rate of 6% and above over the past 3 years, FM providers are facing pressure on their profitability margins and longer working capital cycles.

Working capital cycle
The FM operating model is cash intensive and relies heavily on the efficiency of its working capital cycle. As per respondents, FM providers are facing higher receivables due to:
- Clients facing cash flow and liquidity issues
- VAT implementation in the UAE

Respondents report similar pattern of payable days and receivable days due to “back to back” payment
Labor cost to the firm
Since the FM industry is labor intensive, labor cost to the firm is the major cost component.
UAE respondents report an average monthly labor cost to the firm of AED 3,500 whereas average cost per cleaning staff comes up to AED 2,700.

Labor accommodation cost
The average labor accommodation cost comes to AED 600 per month (excluding food). Respondents report that accommodation costs in Abu Dhabi are 15% lower than in Dubai.
Revenue growth rate
As per respondents, high growth rates are due to increased outsourcing FM services, high development activity and expanding service lines.

Average EBITDA margins
Despite growth in revenues, EBITDA margins have declined due to:
- Tighter pricing because of competition
- Higher costs (including related to visa charges)

2.4 FM Industry Future Outlook
In line with the growing industry, the majority of respondents anticipate their revenues to grow by 10% or more annually, over the next 2 years, with a focus on growing their core business lines. The majority of respondents believe that Mergers & Acquisitions (“M&A”) activity will increase in the short term, mainly driven by market consolidation.
Expected revenues growth
65% of respondents expect their revenues to grow by 10% per annum or more over the next 2 years. Growth is mainly driven by:
• Demand generated from construction projects
• Expanded scope of work from existing client

Growth forecasts by line of services
The majority of participants plan to focus on growing their core services. These include MEP, HVAC and janitorial services. Other services include clean energy management, firefighting, rope access, duct and water tank cleaning.

Mergers & Acquisitions activity outlook
79% of participants believe there will be an increase in Mergers & Acquisitions activity in the FM industry. It will be driven by the consolidation of smaller FM players with larger companies. Reasons for expected increase in M&A deals include:
• FM providers planning to offer fully integrated FM services and expand their footprints
• Decreasing profitability margins
• Lack of scalability for smaller companies
• Higher competition

“Small companies want to sell, larger companies want scale and footprint” – COO of a leading FM provider in the UAE
Expected average EBITDA multiple
43% of respondents are willing to pay an average EBITDA multiple ranging between 5 and 7, depending on the level of know-how and synergies offered by the target. FM companies that provide specialized services, such as: water tank cleaning, duct cleaning, rope access and lake cleaning are seen as attractive acquisition targets.

3. FM industry challenges

Under-developed regulatory framework
- The industry suffers from weak regulations pertaining to licensing, prequalification, environmental restrictions, etc

Late involvement of FM providers in the construction cycle
- FM players who consider themselves “Assets Managers” prefer to be involved in the early stages of infrastructure development and provide FM consultancy
- Early involvement ensures better preventive maintenance and longer asset-life

Limited understanding of value proposition of FM providers
- FM services should be viewed as a long term investment in fixed assets
- Customers in the region are not well informed about the benefits of long-term and integrated FM contracts

Price sensitive customers
- Customers in the region are price sensitive and prefer not to commit to long term contracts

Challenging outlook
- Real estate over-supply creates pressure on rent yields. As a result, customers are cutting costs when hiring FM companies
About Protiviti
Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index. Protiviti a global consulting firm that helps companies solve problems in finance, technology, operations, data, analytics, governance, risk and internal audit.

Protiviti serves more than 60 percent of FORTUNE 1000® and 35 percent of FORTUNE Global 500® companies. We have 70+ offices with a presence in over 25 countries including Americas, Europe, the Middle East and Asia Pacific. In 2016 Protiviti generated revenues of $865 million and grew to over 5,000 professionals across our offices.

Protiviti is very active in the Facility Management sector and has executed several Investment Banking, Risk Advisory, Strategy and Transformation assignments for FM companies in the GCC region. Protiviti also provides a wide range of value-added services including Transaction Services, Risk and Compliance, Internal Audit and Financial Advisory, Business Performance Improvement, Restructuring and Litigation Services, Data Management and Advanced Analytics as well as Information Technology Consulting.

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