

Partners in Service

Managing Vendors Extends Beyond Picking the Lowest Bid

By Paul Rosta

A great deal about the current state of the market for vendors can be discerned from the state of Lori Burger's email in-box. A senior vice president at Eugene Burger Management Corp., Burger gets upward of 100 emails from vendors on any given work day. "A lot of them go straight into the junk-mail folder because (otherwise) you can't operate anymore," she explained. "It's impossible to evaluate all the products and services that are coming through."

As suggested by that barrage, vendors are clamoring for property managers' attention these days. At least in part, the volume of pitches is fallout from the recession. Cost-cutting mandates led to orders to trim vendor expenses across the board by as much as 10 percent. Though those mandates were widely implemented by managers, and vendors made the sacrifices necessary to stay competitive, some senior property management executives contend in hindsight that the dictates were often unrealistic.

"This arbitrary number of 10 percent was like a rumor that started in the market,"

explained Mike Kent, president of Colliers International's real estate management services group. "Some buildings were run very efficiently from day one." Property managers have had to perform the tricky balancing act of slashing the cost of vendor services without letting quality slide noticeably. In order to maintain fundamental marketing tools—curb appeal, tenant comfort—while also trimming costs, property managers have striven to keep any service cutbacks out of sight. One favorite tactic has been to reduce landscaping efforts in areas of a property that get little or no public foot traffic.

As owners and property managers begin planning for 2012, they can count on vendor pricing to stay extremely competitive as a buyer's market continues. Costs of landscaping, maintenance, trash hauling, painting and other common services vary by geographic market. But senior executives confirm the impression that prices are staying flat and will top out at 1 to 2 percent for the rest of 2011.

"We continue to see a reduction in pricing as we come off our three-

year contracts," reported Ellen Darling, executive vice president at Zimmer Real Estate Services L.C. Behind most of those modest increases will be the uptick in fuel prices. The U.S. Energy Information Administration estimated in early June that the average cost of gasoline will jump from \$2.78 per gallon in 2010 to \$3.60 per gallon by the end of 2011 and \$3.67 next year. Similarly, on-highway diesel fuel costs will rise from \$2.99 per gallon last year to \$3.87 this year and \$3.95 in 2012. Hard-pressed contractors are passing along the increase to clients.

As always, the quest to trim vendor costs continues. An "all or nothing" approach will be a new strategy at Midlink Business Park, a 1.6 million-square-foot industrial facility in Kalamazoo, Mich., transformed from a defunct General Motors Corp. factory by its owner, Hackman Capital. Rather than handling some maintenance services in house and contracting out others, Midlink handed the duties entirely to a contractor, reported Rob-



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ert Britigan, the facility's vice president of operations. Although it is too soon to tell how the change will play out financially, eliminating in-house maintenance has already enabled Midlink to trim a position from the payroll. Further savings are expected from eliminating equipment maintenance costs, and the sale of that equipment has also generated revenue.

Price will always be an important piece of the puzzle, and vendors have proved their ability to trim costs in the face of an economic crisis.

But experienced managers warn that placing low prices at the top of the list brings risks of its own. All too often, picking a cut-rate vendor leads to problems and more costs down the road. Jesse Holland, president of Sunrise Management & Consulting, a multi-family specialist based in Latham,

N.Y., likes to cite a variation of the familiar "good, fast, cheap" for selecting vendors. "Our notion is you can have it good, you can have it fast or you can have it cheap. You can get two out of the three—but you can't have all three."

Perhaps owners began to look at everyday services only as line items on a budget. Yet if anything, weathering the recession has emphasized the importance of vendors. Belt-tightening among property managers also makes it critical to pick high-quality vendors. Already stretched thin by recession, property managers need service providers they can count on. "The value of a good vendor has increased," Kent explained, "People are really taxed to get things done, and the last thing they want to do is babysit or hold someone's hand."

In vetting prospective vendors, property managers still rely on time-honored qualifications like recommendations, track record and the company's own financial strength. Even when vendors try to get a foot in the door with attractive new products, scrutiny is a byword. "We're a little gunshy as we look at companies that have come to us with light fixtures," said Britigan, who demands to know where an item is manufactured and how dif-

ficult replacement will be if something goes wrong.

Timetables for vendor selection have largely remained constant during the recession. Three years continues to be the customary length for standard services, along with an annual review. And property managers can still dismiss contractors on 30 days' notice, keeping them on a short leash.

On a related note, as properties change hands over the next few years, managers and their clients

must address the issue of incumbent vendors. For at least the first few months after a property comes under new ownership, the status of the asset's vendors takes a back seat to issues associated with stabilizing the property and getting new procedures in place for accounting and other services. But after that first 60 to 90 days as-

sociated with the transaction, the question of whether to keep or dismiss incumbent vendors will probably arise.

Some owners do bring in their preferred vendors to replace those on site, or require the dismissal of vendors deemed subpar. But most property management executives strongly prefer to keep existing vendors on board following a transaction, as long as those contractors do a satisfactory job.

The role of vendors as partners also governs best practices for managing those relationships, say senior property managers. In today's fiercely competitive environment, most professional-caliber vendors will make every effort to please their clients. Investing the time in creating a comprehensive request for proposals helps to inform them and encourages competitive bids. Property managers should also continue to emphasize time-honored practices like prompt payment and a willingness to wear out some shoe leather.

"You can't manage your vendors from behind the desk," Darling noted. Whether the service is snow removal, the air conditioning system or landscaping, "nothing is a substitute for walking the property."

—Mike Kent,
Colliers International

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A Vendor's Vendor

Day to day and at contract renewal time, property managers must constantly ask the question, "What do you want to see in a vendor?" A checklist would undoubtedly include such attributes as integrity, responsiveness and attention to detail. Yet an example of a first-rate vendor in action might be the most effective way to get to the heart of the matter.

A decade ago, Eugene Burger Management Corp. brought in a painting contractor for the \$3 million renovation of a 139-unit multi-family property in Northern California. Because of a misunderstanding by a supervisor, the contractor inadvertently used the wrong stain. When the mistake was detected, the contractor called in a manufacturer's representative, who informed the team that there was no choice but to start from scratch. The mistake was regrettable, but what left the more lasting impression was the contractor's response. Despite having already completed about \$80,000 of work, the painting vendor immediately offered to re-do the entire job at no additional cost.

In so doing, the vendor demonstrated first-class professionalism and ethics that, as Burger noted, marks the best service providers. "When things go sideways, there's no litigation, there are no attorneys—they just re-do the job." Whatever that contractor might have lost by having to make good on the job has been earned back many times over. In this case, Burger has given the painting vendor a host of enthusiastic referrals that have led to additional work.

This year, the firm has taken steps to give a boost to other vendors as well, on the principle that successful contractors are good for property managers. Recently, the firm created an online vendor directory that gives visitors to its Web site contact information for upwards of 20,000 such contractors.

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