The High Hidden Cost of Low-Priced Security

Because the security budget cannot define risk, it must reflect the risk an organization faces. While budget pressures have always pushed back on this reality, they have grown more challenging in the past decade as economic conditions have challenged organizations in every industry. The call has come from CEOs for departments to justify expenses across the board with demonstrated return on investment (ROI). But ROI has always been tricky in the security discipline, where costs always appear on the spreadsheets, but returns often come in the form of losses averted and risks mitigated.

Many companies have taken advantage of the opportunity to reduce costs by outsourcing much or all of their security function. These companies not only saved money simply due to the economies of scale that a security vendor provides, but typically reaped the benefits of a more professional security presence and a more sophisticated security program. Simply put, companies that are wholly dedicated to the security discipline typically offer greater capabilities than a single in-house deaprtment can in most environments.

An unintended consequence of the contract approach, however, has been to place the security function on the opposite side of the negotiating table during budget discussions. As well, outsourcing has often shifted the degree of influence toward procurement departments and away from security directors. The result has been a greater focus on cost containment and a certain commodification of the security function. Finally, the outsourcing trend has introduced competing security providers who, in the current economic environment, compete as much on price as on service.

Security Management magazine recently hosted a panel representing both contracting organizations and security providers to discuss the impact of low-priced vendors was effecting the profession, and how an outright race to the bottom can be prevented. This paper, and the companion webinar available at no cost, explore the issue in depth and provide some key takeaways that are essential in transforming the industry.

Learning to Love the Process: RFI to RFP

The Request for Proposal (RFP) is a formal process for determining what security service providers can do for an organization, and at what price. But the RFP process is only truly effective and efficient if it has been preceded by a Request for Information (RFI). The RFI is a preliminary step to the RFP that can both save time and ensure that the most appropriate service providers are included in the RFP process.

The RFI should ask about programs and resources that will impact selection such as:

- Types of service available
- Technology capabilities
- Account team locations
- Geographic reach and office locations
- Client references
- Standard key performance indicators
- Communications plans
- Sample reports
- Biographies of account managers
- Training facilities/programs
- Transition plans
- Who are their top two competitors and what differentiates them

Unlike the RFP, which evaluates service providers, the RFI is designed to assess the full capabilities of the industry and how it can meet the security needs of an organization. This process should reveal the advancing capabilities and services available on the market, whether in the form of small specialized contractors, or larger suppliers that have brought new services into the field. It should also highlight new technologies that increase efficiencies or capabilities.

The RFI should outline the services that are being sought and the role security plays in achieving the organization's objectives and mission. The RFI should also describe the operational priorities of the organization and the anticipated interaction and interdependencies that security will have with these priorities.

For the contracting organization, the security function is rarely given full control of the RFP process. While 37 percent of respondents to a recent industry poll report having significant authority, another 30 percent describe themselves as having only "some input." The balance is divided evenly among those who have complete control — 18% — and those who have no formal authority, another 15%. Where influence is shared it is typically with the procurement department or the executive office. In most cases, the security director is most likely to have the greatest influence during the early stages of the process, while the procurement office becomes more influential during the life of the contract as it looks for ways to drive cost out of the program.

For the RFP process to be successful, the security function must work closely with the procurement department to establish a collaborative team with a mutual understanding of priorities. The responsibility of the procurement side is to keep costs and expenses in check—a role that is crucial to the success of the organization. The responsibility falls to the security function to make sure procurement and executive functions have an explicit understanding of the needs and priorities of the security program. Eliminating knowledge gaps and assumptions on both sides is crucial to adequately funding the security program and finding the right vendor that meets the needs and direction of the organization.

In addition to understanding the perspective of the procurement department, a security director should understand the goals of the service provider. In the best circumstances, all three stakeholders—procurement, security, and service provider—should understand one another well enough to have internalized the goals of the others. With that level of mutual understanding, a solution can be developed that provides a solid foundation for a shared success.

Understanding Costs and Values

More than 75 percent of respondents to the same recent industry survey indicate that budgets are "extremely tight" and that cost is the predominant factor in proposal selection and approval. An unfortunate tendency is for the cost parameters to be outlined prior to either the RFI or RFP process. The risk is

An appropriate level of on-site supervision can serve as a force multiplier for the number officers on duty.

that in such environments security budgets are more influenced by financial goals rather than security realities. Security vendors face economic pressures as well, and most service providers will deliver a proposal for the scope of work within any cost guidance they are given. As well, every provider understands that proposals for many organizations will be evaluated on cost first, and program details second. In such an environment, security-first proposals may not even be seriously considered.

Recognizing this dynamic, it is critical for the security director representing the organizaton to understand the impact of every "yes" they are given—both in the RFP and in the contract negotiation process. Profit margins in the guard service sector average 5 to 6 percent, so substantial costs are not

Low turnover provides officers the time to master the environment and to begin making those contributions to the security program that so often originate with front-line staff.

reduced without impact somewhere on the security program. It should not be assumed they simply come from management fees or profit margins.

Hourly wages are a key factor in contract cost, but they are truly just a starting point in evaluating the value of any proposal. Benefit packages—healthcare, sick pay, and vacation pay—can vary widely by service provider and should be spelled out explicitly. The best benefit package can seem like a cost upfront with minimal demonstrated return. But a solid benefits package is essential for hiring the best qualified employees as well as a key factor in employee retention. Benefits such as medical insurance and sick time will keep an employee loyal to the current job even when higher-wage opportunities without comparable benefits are presented.

This is not to say that relatively small differences in wages do not have a substantial impact. Security officers will often take a similar job for a different company that pays as little as 25 cents more an hour—an appreciable raise at this industry wage level. From the perspective of the contracting organization, any contract that provides a lower

This white paper is based on the webinar *The High Hidden Cost of Low-Priced Security* which was held on April 8, 2015 and boasted a registration of more than 1,200 security professionals. The archived event is available at no cost. Details are below, or click here to view it now.

Security directors and other professionals operate under competing pressures to deliver high standards of security while stretching or even reducing their security budgets. All too often in the budget scrum, the bottom line trumps the front line, and low-bid contractors can seem like the only option. But they aren't.

The *The High Hidden Cost of Low-Priced Security* lays out in clear detail the hidden high costs of low-bid contracts. You'll learn best practices to evaluate programs, essential questions that lead to informed decisions, and what key points need to be communicated to ensure budget decisions provide the security function what is required.

Audience Takeaway:

1. What you need to consider when hiring security service providers
2. Key questions to ask when evaluating multiple security providers
3. How to work with procurement to write an RFP to ensure you get what you need
4. 3 hidden expenses that will drive your program costs up right from the start
5. How to avoid contract fatigue by establishing the right baseline for your security program

hourly rate than the local economy typically provides for similar work, the inevitable result is high turnover for the life of the contract.

Opportunity Costs

One of the primary costs of high turnover is that the constant cycle of replacing officers keeps a high percentage of the work effort focused on hiring and training tasks. This represents time and effort the service provider cannot invest in program improvement and innovation.

There is a dividend to the client that does not begin to pay off until the front-line officer has achieved mastery of the duty assignment and the environment. When they no longer need to think how they should do things, they begin to think how they could do things differently. The front-line staff are typically the first to observe inefficiencies or opportunities in the work they are charged with.

Studies indicate that when officers stay in an assignment long-term they begin to feel engaged, not just with the hiring company but with the contracting company as well. This tenure correlates with higher morale and a higher degree of discretionary effort. Discretionary effort is revealed in customer service, demonstrated initiative in achieving objectives, and greater focus on delivering quality

Hidden Issues

"It's all about image and reputation," says James Biehl, CLEE, VP and chief protection officer at KeyBank. "Whether it's the corporate image, your credibility and reputation in the organization and the industry, or the reputation of your organization in the media," Biehl says, "The front line officers are ambassadors for your organization; their comportment, demeanor, and behavior are the first thing customers see and they reflect directly on the organization."

Liability is another concern that stems from vendor selection and the contracting process. Lawsuits all take into consideration the vendor selection process, contract language, and training standards. "You can delegate, but you cannot abdicate." says James Biehl.

People problems invariably accompany low-cost contracts. Peer-to-peer, employee-to-supervisor, and employee-to-client problems all take time for the contracting company to resolve with the service provider. The service provider is also spending too much time putting out fires.

Thinking Differently

Quick wins on contract savings will almost always come from working with the existing service provider. One approach that has been demonstrated to reduce costs and improve the security program is to actually reduce the officer count in order to create a higher-paid position for a ranking security officer. This ranking officer will typically have a military or police background and will be able to mentor and hold accountable the lower-ranking officers.

New technologies have been a productivity boon in all industries, and security is no exception. Working in partnership with a security service provider, technologies can be adopted to increase the efficiency and capabilities of officers to the extent that more security can be provided by fewer people.

When an officer is on-site providing a presence and a response capacity, they can often be tasked with additional duties without detriment to the security function. While this takes careful consideration of potential trade-offs, it can be a way for the security function to provide more service and increase value to the organization. Indeed, many tasks can be identified that not only engage the officer to a greater extent, but also enhance security in the process.

Looking Forward

A key responsibility of the security director at any organization in today's environment is to ensure that every stakeholder is aware of the realities and objectives of the security function. This requires intentional education of senior management and procurement executives long before the time comes to develop the next RFP. Most security directors are currently working with budgets that are lower than they would have recommended. No one in the organization is better suited or more highly motivated to document the high cost of low-priced security.