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Redefining Facilities Management (FM) Procurement

Eliminating the Tier 1 Overhead Burden and
Reclaiming Technical Expertise

Executive Summary

The UK Facilities Management (FM) industry, valued at over £49 billion in 2025, is currently at a crossroads. For decades, the "Total Facilities Management" (TFM) model dominated by Tier 1 contractors has been the default for large-scale estates. However, evidence reveals a significant "bloat" in this model: Tier 1 providers increasingly act as administrative management layers rather than delivery agents, subcontracting upwards of 60% of works packages to Small and Medium Enterprises (SMEs).

The sad reality is that when you consider this from a profit perspective, 90% of the profit that resides in the market is absorbed by the Tier 1 provider with only 10% trickling down to those that are actually doing the work itself – hardly a fair balance.

This report analyses the financial and operational impact of this "margin-on-margin" structure. It argues that the industry's technical "brain" resides within the SME supply chain and presents a case for direct engagement to eliminate unnecessary overheads, improve service quality, and drive genuine value.

The Prevalence of the Subcontracting Model

The UK FM market has undergone a strategic shift away from "self-delivery" toward a management-led subcontracting model. Tier 1 firms have increasingly adopted "asset-light" strategies to protect themselves from the volatility of labour costs and pension liabilities.

- **The TFM Paradox:** While Tier 1 contractors sell the promise of "one-stop-shop" simplicity, they have effectively transformed into professional procurement houses.
- **The SME Backbone:** Over 99% of businesses in the UK's built environment are SMEs. In major TFM contracts, Tier 1 suppliers often flow 40% to 60% of contract value through to specialised SMEs for technical works such as HVAC, fire safety, lifts, and specialist cleaning.
- **The "Paper Tiger" Effect:** Research from the Cabinet Office and RICS indicates that when a critical asset fails, the Tier 1 is often just as dependent on the SME's expertise as the client is, yet they charge a premium for the coordination of that phone call.

The "Skill Gap" Illusion: Where the Expertise Resides

A critical flaw in the Tier 1 model is the "intellectual hollow-out." In the pursuit of scale, Tier 1 providers have shifted their recruitment toward Account Managers and Contract Administrators rather than technical masters.

The Dilution of Knowledge

In a Tier 1 environment, the primary skill set is the management of a CAFM (Computer-Aided Facilities Management) system. The focus is on *reporting* the work rather than the *excellence* of the execution. This leads to technical myopia, where complex engineering issues are treated as simple line items rather than systems requiring deep diagnostic skill.

The SME as the "Master of Craft"

Academic research into tacit knowledge, the "know-how" that cannot be easily codified shows that this expertise is most prevalent in specialised SME firms.

- **Vertical Specialisation:** An SME HVAC provider focuses 100% of their R&D and training on thermal dynamics. Their engineers often have decades of experience with specific assets.
- **Retention of Tribal Knowledge:** SMEs typically have lower staff turnover. An SME engineer often has a multi-year history with a specific building, understanding "quirks" that a Tier 1 manager viewing the site through a dashboard will never perceive.
- **Agile Innovation:** SMEs are the primary drivers of the UK's trade apprenticeships and are often the first to adopt specialised tools (e.g., vibration analysis or AI-driven maintenance) because their survival depends on technical reputation.

The Financial Impact: Identifying the "Bloat"

The primary cost impact of the Tier 1 model is the accumulation of non-value-adding overheads, often referred to as "margin-on-margin."

The Cost Stack Comparison

Cost Element	Tier 1 Subcontracted Model	Direct SME Delivery Model
Direct Labor/Materials	£100 (SME Cost)	£100 (SME Cost)
SME Overheads & Profit	£15 (Standard)	£15 (Standard)
Tier 1 Management Fee	£8 - £12 (Typically 8-12%)	£0
Tier 1 Corporate Overhead	£10 - £15 (Internal Admin)	£0
Total Cost to Client	£133 - £142	£115

Hidden Economic Costs

1. **Information Asymmetry:** Tier 1s often apply a "mark-up" on reactive works where the client lacks visibility of the original SME invoice.
2. **Transaction Tax:** Every layer of subcontracting introduces communication latency—delays in work orders and misinterpreted specifications.
3. **The "Knowledge Tax":** Information travels from the expert (SME) through a helpdesk and an account manager before reaching the client, losing technical nuance at every stage.

The Case for Direct SME Engagement ("Right-Sourcing")

The Procurement Act 2023 (effective 2025) mandates that public bodies break large contracts into "lots" to favour SMEs. This creates a legal and moral imperative to remove the middleman.

- **Operational Agility:** SMEs operate with shorter decision-making chains. Research from the

Federation of Small Businesses (FSB) shows SMEs are 23% more likely to adopt innovative technology faster than Tier 1 firms burdened by legacy systems.

- **Local Economic Impact:** For every £1 spent with a local SME, 63p remains in the local economy, compared to only 40p with a national Tier 1 firm.
- **Direct Technical Consultation:** By removing the "buffer" layer, clients speak directly to the people who understand the physics of their buildings, leading to better long-term capital replacement planning (CapEx) rather than endless, expensive reactive "patches" (OpEx).

6. Call to Action: Driving Industry Change

To reduce bloat and reclaim technical excellence, clients must stop treating FM as a "hands-off" commodity.

1. **Audit the Supply Chain:** Demand total transparency. Identify exactly which works packages are subcontracted and what the specific "management fee" for that package is.
2. **Invest in a "Thin Client" Model:** Instead of paying a Tier 1 to manage your risk, invest in a small, high-calibre internal management team that can engage directly with SMEs.
3. **Adopt "Lotting" Strategies:** Break down multi-discipline tenders into specialized lots (e.g., M&E, Fabric, Cleaning). This allows SMEs to bid directly, removing the Tier 1 overhead.
4. **Prioritise Technical Competence:** In tender evaluations, weight technical expertise and staff retention higher than "administrative scale" or "global footprint."

Conclusion

The Tier 1 model is an expensive insurance policy against the "hassle" of management. In an era of constrained budgets, the 15-20% premium paid for this layer is no longer justifiable. By reconnecting the estate to its technical "brain" the SME and clients can reclaim their budgets, improve asset performance, and support the true experts of the built environment.