Maintenance Outsourcing – Some Key Reminders and Considerations as a Recipe for Success

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1.0 Background

Several years ago the Financial Times published a Survey on Outsourcing and quoted an earlier survey which suggested that 67% of businesses failed to get the expected benefits from outsourcing. At the time a further survey also identified that less than half of outsourcing users were satisfied and that only a meagre 6% were very satisfied.

Why is this the case and have things improved over the last several years?

If your company is considering outsourcing some or all of its Maintenance requirements then perhaps the following thoughts may provide some useful pointers and guidance.

As companies focus on the integration of customer value into all aspects of their value streams, equipment maintenance soon crystallises into a key ‘Enabling System’ within the organisation. As such any attempt to outsource or modify ownership and control of such critical business systems must be approached with detailed consideration.

2.0 Evolution of Outsourcing Facilities & Maintenance of Assets

The evolution of so say ‘best practice’ outsourcing models have passed through 3 generations:

- **1st generation**: Characterised by rigid Service Level Agreements and hands off relationships—essentially adversarial with a ‘them and us’ atmosphere
- **2nd generation**: With a move away from the business driver of pure cost cutting to one of improving effectiveness of resources and physical assets;
- **3rd generation**: Partnership based agreements with a win/win foundation based on building trust and where a significant part of the reward structure is variable according to pre-determined performance levels

Successful outsourcing relationships are often able to progress from 2nd to 3rd type reward structures.
The first schematic below illustrates the aligning of joint expectations towards a common goal.

The second and third picture below pinpoints some of challenges that have to be addressed in order to deliver a successful outsourcing partnership.

The driving force behind successful partnerships which are sustainable –as is the usual case with any continuous improvement process- is consistent leadership and behaviours from the top and where those leaders trust to delegate the delivery bottom up via clear roles and responsibilities-easy to state but challenging to deliver!
3.0 Ingredients for Success—Eight Considerations

If we take the above characteristics and principles and explore them in more detail we have eight factors to consider...

3.1 Performance Driven v. Cost Down only. Look beyond pure cost cutting. The happiest relationships are those where the ‘Asset Owner’ remains deeply involved with the activities after they are outsourced and where the ‘Partnership Contract’ has a significant level of performance driven metrics within it.

3.2 Non-core v. Core. Decide at an early stage what is core and non-core. What must be kept in-house and what should be outsourced? and the many shades of grey in between.
Think of it as peeling an onion: The outer skin is the generally low risk, non-core elements of the business such as security, canteen, laundry, printing/publishing, grounds, roads, gardens and building fabric maintenance.

The next layer of the onion is the whole area of how the Energy needs for the Site are acquired/generated and maintained. Obviously there is some risk in Outsourcing this but there are many specialist companies that can probably do it more reliably and cost effective than the ‘Asset Owner’.

The next layer is the maintenance and reliability of how that energy source is distributed within the Site to the point of use (and disposal in the case of effluent and other environmental considerations). The ‘point of use’ can of course be something as simple as space-heating/cooling or it can be to the strategically important assets / machines / processes that add-value to your products. Again there is some risk but the same comments apply regarding specialist outsourcing companies.

The final layer is in fact the core of the onion. Namely, the maintenance and reliability of your strategically important, value adding assets. Here the risk of outsourcing is obviously high with all the implications of continuity, knowledge base as well as TUPE, Pensions and the IR climate in general. As such, it is where true Partnership Agreements have to be both robust and believable.

If, for example, you have (or are working towards) integrated teams of Operators and Maintainers, then ask yourself a question: Can we have two different ‘paymasters’ in an integrated team? Obviously you can, but it raises some interesting challenges! There are examples and case studies where this
has and is working, but its success is subject to some key provisos and caveats:
- Joint Clarity of Purpose
- Detailed Planning
- Regular, Open and Honest Reviews
- Refocus and Redirection when Necessary
- A Strong Belief, Willingness and Commitment to Make it Work from the Outset (Especially the Asset Owner)

3.3 What are the Risks? Taking account of the above points, understand the consequences of getting it wrong and assess the risk to the business. Include the impact on learning and improvement and value creation and how you will actually define and measure this. Run a Risk Management Workshop and include your short-listed Suppliers in this activity in order to create the vision and key ingredients for developing a Win/Win Partnership which will typically shows these features....

3.4 Be Thorough. Apply the same rigour as you use for mergers and acquisitions including due diligence of short-listed Suppliers and their key personnel. Remember also that your short-listed Supplier will also want to carry out due-diligence on you (forcing you perhaps to ‘air some dirty washing’ on the way!)

Where benefits fail to materialise it is often in part, due to a lack of thought and skill in managing the 3rd party relationships. It can also be significantly influenced by differences in working cultures and values and differences in strategic drivers.
When selecting a potential Supplier, consider how they make decisions, how they deal with their customers, the way their people relate to their own superiors. This has a major impact on the ability to establish a proactive and converging working relationship over time.

3.5 Track Record. Ask your potential Partner / Supplier for reference site visits that most closely mirror your requirements-but don’t expect a perfect fit as it will probably be one of your competitors and they won’t let you visit anyway!

3.6 Creating a Win/Win Situation. At the negotiation stage, focus on desired outcomes rather than prescriptive methods contained in a ‘traditional’ SLA. Show some Innovation!!

- The heart of the contract is how success or failure will be measured. Clarity and unambiguous vocabulary, terminology, roles and responsibilities are the keys to success.
- On what basis will service providers be paid/rewarded, when will penalties be applied, under what circumstances can the contract be terminated, what is the lock- in period?
- If your plant / equipment / machines are worn-out / suffering from years of under-investment / lack of refurbishment, will your service provider expect a premium to cover this asset profile?
- In the same way, how will planned /new investment be recognised?
- How will information security be provided including systems access?
- Meeting legislation and company standards (TUPE,HSE, Data protection etc)
- Intellectual property controls;
- Disaster recovery;
- Qualifications and training of service personnel, background checks on key personnel.

3.7 Be Flexible & Adaptable. Ensure that service providers are flexible to changing circumstances. Over 50% of contracts are renegotiated before their term is complete.

3.8 Treat it Seriously. Establish a proper governance model including joint problem solving and problem prevention. Allocate a senior level Sponsor/ Champion to oversee the quality of the relationship and its development. Develop a sense of cooperation and partnership
4.0 How should we go about the process of Selecting and Evaluating a potential Outsourcing Partner?

4.1 First have a plan.

Here is a suggested 3 x phase approach

**Maintenance Outsourcing Plan**

**Phase 1**
- Initial feasibility
- Size of prize
- Supplier capability
- Supplier choice
- Initial recommendations

**Phase 2**
- Detailed feasibility
- In depth size of prize
- Risk assessment
- In depth Supplier assessment
- Implementation planning
- Define resource needs and costs
- Final recommendations

**Phase 3**
- Project launch and delivery

4.2 Maintenance Outsourcing—Clarify your Purpose

The aim or purpose of your Evaluation Programme should include

- Assessment and preparation for Maintenance outsourcing
- Selection of Key Process Performance Metrics and opportunities for improvement to be incorporated into Maintenance supplier contracts
- Assessment of performance of potential Outsource Maintenance Service providers

The following details outline an approach to supplier assessment to outsource maintenance. (although this is for an existing facility you can easily adapt this ‘foot-print’ for a greenfield situation)

4.3 Development of Outsource Supplier Questions

The Asset Owner needs to develop a series of questions to rate the potential maintenance outsource provider
The Questions are completed during Face to Face interviews with the supplier team and visits to current outsource maintenance sites managed by that supplier.

**Size and Nature of Opportunity- Questions to ask**

1. What is the correct way to value improvements in business performance benefit? (the OEE might be one useful metric, rather than just the direct cost of maintenance, but what other metrics are relevant)
2. What are the best measures of potential benefit where OEE benefit does not reflect the operational dynamics of a plant?
3. For multi site operations, is there a rule of thumb that can be applied to this opportunity in terms of site rationalisation?
4. What is the benchmark for excellence in our industry?
5. Is there an endemic level of unavoidable waste in our industry?
6. How should “mechanical downtime” be incorporated into the benefits analysis?
7. Is there a premium in the supplier bid that is contingent upon their belief that our equipment is old, well used or out of economic design life?
8. Is there a requirement from suppliers to replace old equipment with new in order to deliver the benefits identified?
9. Are there opportunities with regard to capital investment where the service provider can support our business?
10. What are the constraints that govern the speed of transition to a supplier such as the xyz company? And over what time could a transition occur?
11. Does our company culture align with, or can it accommodate, the supplier’s culture? Is there a desirable consequence of having a new culture introduced into our engineering activity?
12. Do reference site visits support / endorse our current evaluation?
13. Can the suppliers deliver the benefits within an estate of old equipment and sufficiently understand how best to get the most out of new equipment?
14. What needs to be true from a commercial / contractual relationship that delivers a win/win result for both parties?
15. Are there applicable learnings from our Company that we can use with this Supplier?

**What Needs To Be True in terms of Planning for Success?**

- **Risks**
  - What are the key risks associated with this opportunity and what are the mitigation plans?
  - Are there any “show stoppers”
  - Do we have an Industrial Relations policy in place that will enable a transfer of undertaking?
  - Has that policy been specified as a ‘Joint Enabling Agreement’ between management and the employee representatives?
• **Our Company’s future capability**  
  – What are the skills required to deliver value from an outsourced engineering capability? (Define “intelligent client” in this context)

• **Operational “Fit”**  
  – How will the proposals deal with our current ways of working e.g.
    • the need for flexible manufacturing vs planned downtime
    • the interface between our “operations” and “engineering”  
    • functional vs process management
    • what is the correct “RASCI” in an outsourced maintenance engineering world?

• **Strategy alignment**  
  – How would potential outsourcing solutions accommodate our other strategic Operational Excellence initiatives?  
    • What is the right type and number of “levers” to use to deliver the overall goals of Operational Excellence in our Maintenance Outsourcing model?
  – Should we only utilise internal management capability to try and deliver the desired change?

• **Planning**  
  – What would an effective plan look like in order to deliver benefits quickly and at what managed risk?

**Use Ratings Criteria in response to the Questions**

- Score 1 - No plans or evidence to address the Q’s
- Score 2 - Fair / shallow / deficient / inadequate response to Q’s
- Score 3 - OK response & would meet our needs but not specifically evidence based
- Score 4 - Well constructed & thoughtful response to Q’s
- Score 5 - Innovative response & strongly evidence based

**5.0 Some Final Thoughts**

Before committing to a partner-and hence Partnership, both the ‘Asset Owner’ and the ‘Supplier’ should ask themselves and each other these six questions:

- Can we actually work with these people—can we build trust with them?
- Are we prepared to fundamentally change our ways of doing business?
- What behaviours will we need to exhibit on a day-by-day basis to ensure the partnership works?
- Have we identified all the risks and counter-measures for negating and minimising these risks?
- As a business, have we really got the appetite to take this project on—what exactly is the compelling business reason?
- Should we both perhaps progress the contract from the outside of the onion towards the core, rather than a single big-bang approach?
If both parties can put solid ticks against each of these six questions then you might become one of the 6% who are very happy with their Outsourcing experiences!! Conversely, if you can only tick just five—but not six—then you could become one of the unhappy 67%!!

**About the Authors**

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