

Outsourcing Equipment Maintenance in a Down Economy

In recent years, outsourcing has ascended from being considered a dirty word, spoken only in the privacy of corporate boardrooms to being viewed as a dynamic management tool that can help reduce costs and improve productivity. This has been especially true in manufacturing companies where strategic planning has determined that limited company resources must be allocated only to those business processes that are absolutely core to the success of the business. These strategic processes have been labeled "Core Competencies." Business processes that do not meet this definition of core have become likely candidates for outsourcing.

Defining core competency

The determination of which activities are truly core has begun to evolve into something quite different from the original thought process. Either the core process was thought to be important to the success of the business or it was considered to be a process that the business did very well. The key words used to define core were "important" or "proficient". However, recent conversations about core competencies have focused less and less on these words. Companies have discovered that certain business processes were both important and the company had significant proficiency, but these processes were not core to the real success of the business. Rather than looking internally for the new definition, companies have begun to look to their customers to define what their real core competencies are. Many have found the definition of core competencies centers on business processes that drive why customers buy the product. They are the processes that differentiate a company's product from competitors and include a variety of processes like manufacturing, engineering, customer service, distribution, etc. Processes like payroll, accounts receivable, human resources, janitorial services, facilities and grounds, security, etc. generally do not make the list. Today, production equipment maintenance is often being added to the list of non-core competencies.

Why outsource maintenance now?

The decision to outsource equipment maintenance, during the recent economic boom, was generally made for the purpose of improving maintenance performance in order to maximize the output of the plant. With orders at very high levels, the only thing that would hurt plant financial performance would be the inability to make enough products to meet the demand of the market. Although the decision to outsource a key, yet noncore, function like maintenance was not an easy decision, Plant Managers felt comfortable that the risk involved with outsourcing was not as great as the risk of not producing. With the economic issues facing manufacturers today, the decision to outsource equipment maintenance is probably more viable than it has been in robust economic times. Today, companies are hunkering down, simply trying to get through the economic downturn. They are taking a short-term view of the world, cutting costs wherever and whenever possible. Although the desired outcome of outsourcing today is different than it has been, it is probably a more important strategic and tactical decision than it ever has been before. Today, Plant Managers are looking to improve the effectiveness and efficiency of maintenance, not to generate greater output, but to generate the same or less output at a reduced maintenance cost. However, in addition to reduced cost of maintenance, many Plant Managers are recognizing that there are a variety of other benefits to outsourcing equipment maintenance in this slow economy. These benefits include:

- Reduced total cost to produce
- Improved Management focus
- Minimized risks
- Overcoming internal resource limitations
- Preparation for the recovery

Reduce total production cost

When economic times get difficult and a plant's backlog of orders dwindle, the usual reaction is to circle the wagons, cut people and costs wherever possible, and try to ride out the storm until the economy turns around. There is no question that minimizing costs when the economy is poor is the smart approach, but oftentimes Plant Managers focus so intently on cutting payroll, that they miss the big dollar savings opportunities...like stepping over dollars to pick up pennies.

Maintenance is one example of this practice. When the economy turns down, most plants make the judicious decision to cut the number of maintenance staff, and if maintenance was not being done well before the downturn, it is unlikely that the reduced staff will make it any better. When maintenance is performing well, total cost to produce the end product goes down significantly, and overtime, (production and maintenance) should be minimized or eliminated because machines are available and running when needed. Production can be accomplished in 1 or 2 shifts, rather than 3 or perhaps production goals can be met in 4 days rather than 5 or 6. Much less finished goods inventory is required to meet rigorous shipping demands. These savings can only be achieved if maintenance is performing at a level sufficient to sustain a minimized production schedule. If maintenance staffs are going to be cut in down times, their performance must be significantly improved if the plant is going to realize the desired level of profits. Using an outsource contractor for equipment maintenance, utilizing their broad-based expertise, is certainly one way to get enhanced maintenance performance with a cut back maintenance staff.

Management focus

During times of economic downturn, Plant Managers seem to deal with one fire after another. It seems like everything on their plate is an emergency. Additionally, there is little margin for operating error since any negative activity will have a large impact on the performance of the plant. Therefore, plant management must keep a tight grip on the plant's rudder and make sure that everything runs according to plan. However, plant management can afford to focus their attention only on the core activities. If maintenance, which is generally considered non-core, is outsourced to a reliable supplier, that is one less issue that management must deal with on an incident by incident basis. With equipment maintenance in the hands of professionals, management can apply all necessary resources to the other hot spots in the organization.

Minimizing risks

In a down economy, plants are running very close to the edge and there is significant risk when anything goes wrong with production, and strategic initiatives are generally directed towards trying to get the most with the least and managing the fires that arise. Because there is most likely reduced staff both in production as well as in support areas; because spare parts inventories are at bare bones since replenishment purchasing has been slowed or stopped; and because even the rudimentary preventive maintenance tasks are scaled back as time will only allow the limited staff to react to machine down situations, the risks associated with machine failure are great. It is imperative that maintenance does not fall down in its responsibility to ensure that equipment is in good working order. Having a professional maintenance organization responsible to see that everything goes well with machinery takes much of the pressure and risk out of ensuring that production equipment is ready to run at all times. Risk associated with morale can also be minimized. There is usually a considerable amount of personal stress and cultural upheaval associated with production schedule cut backs and the associated reductions in people that are brought on by an economic downturn. The decision to outsource can also bring about stress within the organization. Too often Plant Managers decide not to outsource during difficult financial times instead of using those difficult times to make all of the appropriate changes, including outsourcing. It is far easier to get through all of the emotional changes at one time than to make changes in stages. All of the stress and tension is dealt with up front and the plant prepares to move on with the business of making money.

Overcoming internal resource limitations

In down economies, plants usually cut out all fat that may exist in the staff. Oftentimes, the cuts slice into muscle as well, including the technical and support resources and maintenance, which

are essential to the success of the plant. This situation is more pronounced in focus factories and presents a significant problem for these smaller facilities. Maintenance knowledge in these types of plants is generally restricted to the combined experience and expertise of the current staff, and keeping senior level technical resources during slow economic times can be quite costly. Tapping into the knowledge and expertise of a much larger, professional maintenance organization helps to alleviate the dependency on limited internal resources, providing “big plant” resources without the high costs associated with that level of expertise.

Preparing for the recovery

Probably the most important reason to consider outsourcing maintenance during an economic downturn is that the plant will need all of the processes, systems, and methodologies of effective maintenance firmly in place once business begins to come back. If ineffective, inefficient maintenance practices are perpetuated during slow times, the speed and pace of the recovery will not allow best practices to be established as business returns. Maintenance will be woefully inadequate to handle the demands of increased production and greater need for equipment reliability. Market share gains will be achieved on the upswing by those plants that are best prepared to handle the influx of new orders. By installing maintenance best practices during slow times, you are fully ready to provide the increased service levels that will be demanded by the equipment. Additionally, you will be far ahead of your competition in terms of responsiveness to new orders. Dealing with all of the various outsourcing issues during slow times in the plant allows for a careful and well thought out transition of maintenance.

Foresight

By outsourcing maintenance during the slow business cycles, significant improvement can be made with little responsibility falling on the internal staff. Internal resources can focus on the core issues of maintaining or growing market share through the tough times, while the professional maintenance contractor can focus on making sure the equipment can run when needed. Outsourcing equipment maintenance when business times are tough allow plants to better handle the critical profitability issues that must be addressed in slow times while simultaneously preparing the plant to be more efficient and productive when the economy turns. It is, at least, an idea worth investigating.

Contact Steve Welch of ATS at 309.693.4138 and through www.advancedtech.com.