

Should we outsource?

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Outsourcing is a form of alternative service delivery where one company hires another to perform some of its functions. It's fairly common in some fields, such as accounting, manufacturing and IT, but not as common when it comes to maintenance and asset management.

That's because there are a lot of fears around outsourcing and many are well founded. Quality of service is a major concern. An outsource service provider may not be as oriented towards provision of services as your own staff. Response and resolution times for problems may be compromised. If something occurs that is in a contractual gray area it may take a long time to resolve. Costs may not be as well controlled. It may create a dependency on one supplier. Over time, the assets entrusted to the contractor's care may degrade because of short-term profitability drivers or short contract horizons.

On the flip side, there are benefits to be gained if the risks can be managed. An outsource service provider can bring expertise in a field where your own staff is lacking. Because they specialize they may also have access to more current technology, systems and processes. Their services may be more easily scaled to match changing market demands on your business, both up and down, which is not easy to do with your own cadre of full-time employees. They may be less expensive, they may help to decapitalize your balance sheet and they can enable you to focus on strategic issues as you leave the day-to-day operations to others.

Consider that outsourcing is a form

of delegation, albeit on a corporate scale. Successful entrepreneurs learn to delegate activities that are not unique to the business, are not of strategic value and could easily be done by others. For example, there is nothing unique in any business about accounting, so it can, and often is, outsourced. Similarly, larger organizations with unique abilities – things they do well that have driven their business success – can do the same.

Maintenance is a largely generic activity. No matter what physical assets you have and in what industry, they are usually constructed of the same sort of parts and systems. They are all civil, mechanical or electrical in nature. They use chemical, thermodynamic, atomic and other properties to perform a variety of functions. Subjected to the same stresses and environments they all break down and fail in similar manners. A bearing for instance, doesn't behave differently in an airplane or a refinery pump or a car just because it is in a different piece of equipment. Repair work is also much the same but from industry to industry the bureaucracy associated with it may change. For example, aircraft, nuclear and pharmaceutical maintenance are subject to very stringent controls and documentation/record keeping, but the hardware being worked on and the tasks being performed are no different than elsewhere. Aircraft maintenance is often outsourced. What's unique is often the specific product or services being produced, but for the assets themselves, those only really impact what fails, how often and in what ways. In RCM we refer to this as the operating context and indeed it is different in most cases.

If your maintenance work deals

with matters that are common across all industries in your market, or just in your industry or just in your particular sector, then there is a good chance that outsourcing can work well. If your maintenance work is truly unique or deals with proprietary processes, then outsourcing is probably not a good idea. Even activities that demand highly skilled capabilities on critical or complex systems are not necessarily unique. Aircraft maintenance is a good example. Thorough analysis of your maintenance regime can reveal whether outsourcing is even worth considering.

➤ The risks can all be dealt with in the contract structuring through performance measures and various remedies and rewards. Where dickered over whether or not work is in scope occurs you'll almost always find an overly specified scope of work where an attempt was made to control every detail. You will want to build in flexibility and a mechanism to handle unforeseen circumstances based on a broad general set of criteria that you would use yourself if you were directly managing the activity.

There is a whole methodology that spans the spectrum of scope definition, service-level determination and pricing that can be used in assessment and preparing for use of services contracts. It is far more complex than merely contracting a small job. Most procurement groups lack the expertise to deal with a large-scale outsourcing initiatives and that is probably why some of those have gone sideways.

Outsourcing maintenance is not yet very common and it may never be, but it is a viable option that, in many cases, is probably not being considered as seriously as it deserves. **PEM**

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