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Beyond Outsourcing: Partnering provides provable long-term results

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Working side by side with the customer rather than at arm's length denotes more than a "client-vendor" relationship. This plan of "partnering" brings you a step beyond outsourcing and into a new business model.

Outsourcing: panacea or flash in the pan?

When the outsourcing business model first hit the scene, it was the greatest thing since polyvinylidene chloride. Companies saw outsourcing as an incremental tool to carve out unimportant activities and cut costs in non-core activities. Management books heralded this model as a panacea for manufacturing competitiveness in developed economies like North America.

But, as the saying goes, no one can save their way to prosperity. Outsourcing became a classic case of diminishing returns (allowing those same heralding authors to write more books about outsourcing's demise). After reaping all the low-hanging fruit in the first year or two, outsourcing "non-core processes" turns the outsourced process into a commodity, with limited lasting value to the end customer. Soon, in conjunction with the Internet, companies with outsourcing business models were introduced to Cost-Only Blind Reverse Auctions (COBRAs), where the lowest bidder wins. This ensured a cycle of ever-decreasing margins and the requisite compromises that go with them, such as sacrificing quality for cost, and high customer "churn" as the other guy wins the business.

So in this environment of diminished value offering, the only way a company with an outsourcing model can grow is to find a way to provide additional value to the customer. One way is to expand the scope of outsourced services provided to that customer. But while this approach might add revenue, it is still predicated upon a cost-only model that ultimately provides little real incremental value to the customer, and then only for limited time, until the diminishing returns rule kicks back in.

Another, more promising way to improve the outsourcing model is to move "up the value chain" beyond simple cost-cutting and into something that provides real, lasting and attractive value to the customer, such as increased production. The idea here is that if costs are under control and reasonably predictable, then increasing production (providing the customer can sell extra production) will contribute additional margin directly to the bottom line.

But moving "up the value chain" into production means the outsourcing company begins to encroach upon the customer's core business; the same business the customer chose to concentrate on, and why they decided to outsource "non-core" processes in the first place. Yet if the value proposition to the customer is no longer limited to non-core processes, then that business model must be something other than "outsourcing." A third-party business model directly contributing measurably to the customer's core business needs another name. Working side by side with the customer rather than at arm's length denotes more than a "client-vendor" relationship. We propose "partnering" to describe this new kind of business model.

Partnering: outsourcing's smarter cousin

Partnering thinks in the customer's long-term interest, working with arms locked, not at arms length. Partners have the same goal as the customer, participating in production meetings, and mutually

striving to achieve jointly-created and targeted metrics. The primary differences between a partnering business model and traditional outsourcing are:

The fundamental components of successful partnering are:

- Mutual objectives
- Performance basis

Mutual objectives: “singing from the same songsheet”

Key to partnering is mutual objectives defined by Key Performance Indicators (KPIs). KPIs are used to measure improvement. Partnering KPIs should be mutual and plant-wide, in which the partner can be seen to have direct (if lesser) impact on overall plant performance. If KPIs are limited to task-driven measures influenced only by the partnering company, then the partnering company is incentivized to manipulate the system (albeit ethically and legally) to achieve these KPIs, regardless of how the rest of the plant performs. If KPIs are “silo-driven” like this, and the partnering agreement is performance-based, the customer may find himself in the position of having to pay a bonus to his partner when the partner meet his metrics, even while the overall plant performs poorly. A scenario like this in which only one partner “wins” is sure to end badly, perhaps in a COBRA. So metrics must be plant-wide, that both the end user and the partner company strive for, and for which both parties agree ahead of time.

But even with mutual metrics, in a dynamic business environment, issues requiring mitigation will still arise. So just as partners in the best marriages have an agreed upon methodology for how to mitigate family disagreements, successful business partnerships also must have a good problem resolution methodology agreed upon before problems arise. This takes the form of agreed upon timeframes during which to discuss strategic ramifications of meeting (or not meeting) mutual KPIs.

And good partner “coaching” should not be overlooked. As many successful couples have a trusted person they can consult during difficult times (such as a parent, pastor or friend), successful partnerships should have a “board of directors” consisting of senior managers from both companies. But rather than only having this “board of directors” available to mitigate issues when they arise, the board should meet on a regular basis (quarterly, semiannually etc) to understand and provide proactive advice and direction to mitigate issues before they arise.

Again, business is dynamic: customers change, markets change, prices change, products change, capital changes etc. If no process for adjusting to these dynamics exist so that the customer and partner can continue to have measurable improvements that positively affect the business, the partnership is sure to sour.

To this end, agreement must exist ahead of time for how both parties meet, perhaps in conjunction with the “board of directors,” to address market, business and plant dynamics, and mutually adjust metrics, bonuses, penalties etc. to align with these dynamics. The key to doing this successfully is the word “mutual.” Since both parties have agreed up-front to work together long-term, it should be in both parties’ interests to make adjustments that ensure long-term success. This means both the customer and the partner must be flexible. The partnership will not be successful if only one party “wins” in these circumstances.

Performance basis: “skin in the game”

By definition, when a non-core process is outsourced, that former internal cost center automatically becomes a profit center – but for the outsourcing company. What are missing are the aforementioned mutual KPIs that ensure that the outsourced function becomes a profit driver for the customer.

In partnering, this process or function is still a profit center for the partner, but with mutual KPIs, the

partner's profit motive is aligned with the customer's profit motive. Add the performance basis, and the partner's profit motive is not how much money the partner can squeeze out of the customer, but how much more money the partner can earn for the customer, since the partner will receive a portion of that extra profit created.

But as with any successful company, the profit motive is only be fully realized when there is a corresponding negative incentive: the prospect of a loss if profit is not realized. Nothing will focus a partner to constantly think of how to perform better tomorrow than yesterday than this imminent bonus/penalty, or profit/loss, scenario. This "skin in the game" is what drives the partner, and increases the partner's value to the customer, because the customer knows there is real invested partner working with him rather than an arms-length, uninvested vendor.

The profit motive is fundamental. Yet partnering requires more: successful partnering involves working together to create value. So soft issues, such as building relationships, trust, understanding culture etc. are also very important.

In any partnership, trust is the most important factor. Trust cannot be commanded or measured. Trust takes time to build, but can be lost in an instant of untrustworthy behavior. Yet trust is simple and straightforward, based on openness, candor, honesty and delivering on promises. This behavior must be present in partnering, and will only be there if led and acted upon by management of both companies. When this happens, the characteristics of partnering begin to work throughout the company, and a culture change takes place, resulting in higher work standards and attitudes.

A performance basis drives "right" attitudes. Outsourcing contracts are typically negotiated without either side really knowing what the strategic outcome should be. When a task is outsourced on a cost-only basis, people performing that task cease to be "one of us" and become "one of them," with the "second-class citizenship" discouragements that come with these arrangements (parking in the contractor lot etc). Human nature being what it is, these slights create an "us-against-them" attitude that manifests itself in ways that adversely affect value for both companies, because each side naturally moves to take advantage of the arrangement, at the expense of the other. This "us-against-them" attitude disincentivizes the company doing the outsourced work, and is the underlying reason the customer company becomes disillusioned with the outsourced company, and drives a COBRA scenario.

A performance-based partnering agreement hedges against an "us-against-them" attitude. When a partner contractually commits to a level of steadily increasing performance (year over year production improvement, for instance), and receives a bonus if this contractual commitment is positively exceeded, the bonus should be shared with employees so they are constantly incentivized to perform better tomorrow than yesterday.

So how does this eliminate "us-against-them"? In the best partnering arrangements, the customer and partner work together to arrive at mutual performance metrics AND workforce financial incentives. So both the customer employees and partner employees work daily toward the same metrics and the same bonus opportunity. This approach institutes real culture change and partnership value.

The whole world is watching

Partnering agreements require "right" attitudes on the part of company management as well. Particularly in litigious North America, with sterile, impersonal, transactional contract language actually creating as much of a legal barrier as possible between companies, partnering language – with its focus on trust, mutual targets and cooperation -- is difficult to understand and accept. Yet it is the trend of the future. Until very recently, partnering was not widely accepted in North America. But given the global competitive pressures on all industries and geographies, the benefits of partnering are difficult to ignore, especially since outside North America, partnering is already providing competitive value.

Brazil

A European chemical company with operations in Brazil, making commodity products such as VCM,

high-density polyethylene, HCl, caustic soda, hydrogen and PVC, knew that in order to maintain acceptable margins, they had to think differently about how they managed their operations. Realizing that maintenance provider in Brazil

How improvements were accomplished:

1. Engineering studies solved critical and chronic problems
2. Systematic failure analysis involving operators, process engineers & maintenance.
3. Maintenance process mapping where all involved areas participated in contributing to improve maintenance

European electronics

Recognizing that global competitiveness depends upon world-class performance and production strategies, a major Finnish electronics company developed a partnership with a global maintenance management company in 2005. The electronics company's decision to do this moved their Hungarian factory toward world-class productivity.

The partnering agreement was signed with a mutually agreed plant-wide metric of Overall Equipment Effectiveness (OEE, which is Availability X Rate X Quality). OEE quickly became the key element in driving plant performance. Recognizing the bottom-line effect of an OEE increase, the partners defined an optimal way to capture OEE from critical equipment, as well as from the entire production line. Together, the partners re-defined and formulated the company's production and reliability strategy to drive OEE. All employees were trained and incentivized to work in a way that drives OEE. New production records are being achieved, and the site is well on its way to world-class productivity.

Chemical cooperation

When six chemical plants decided to consolidate their maintenance operations, they chose to partner with a major maintenance management company to achieve this goal. These six plants, owned by three separate companies, share one of Australia's largest chemical and industrial sites. These sites produce chemicals and specialty surfactants, including raw materials for the automobile, mining, agricultural, plastics and rubber industries.

The owners shared more than the same site; they shared the same concerns over plant downtime, safety, health and the environment. They decided it was time to partner with an experienced change management company who had also assisted in prior plant shutdowns and understood maintenance from on-site, hands-on experience.

This was an enormous undertaking on part of each plant's management. As each site was initially responsible for its own maintenance, pages and pages of incompatible reports and invoices were generated. The newly formed partners understood that the outcome of their combined efforts would invariably change the entire maintenance culture.

As standardization took hold, costs plummeted. Maintenance costs fell 20% in the first year. The new organization was brought to ISO standards; the mindset of the employees went from "your area" and "your problem" to that of "our site" and "our solution." Also as a result of this culture change, injuries fell from 78 per 200,000 man-hours to less than half that amount, and continue.

The benefits of partnering have been felt throughout the site. One example is that plant administrators no longer have to deal with dozens of separate invoices. Software introduced by the partner company allowed the combined maintenance organization to produce one invoice per plant per month. Further, plant management can now access information that lets them monitor and analyze the maintenance function. This information enables the partners to recognize opportunities for further improvements in productivity and efficiency. The potential to save energy, upgrade equipment, automate, and consolidate is greater than ever.

According to the utilities plant manager, "We have access to maintenance data and knowledge we never had before, and uncovered the competitive advantage in highly effective maintenance systems. We can now obtain a real-time snapshot to identify areas for improvement, which is vital to optimize the 24x7 workings of a petrochemical plant."

Catalyzing culture change

This culture change in maintenance through partnering has proven to increase performance, decrease costs, improve communications and drive OEE at virtually every location. The partnering organizations are receiving the skills, procedures, and resources needed to continuously contribute. Partnering is reshaping and transforming organizations around the world, and delivering a new level of business value.

Sites are seeing a significant shift in attitudes, with partnering creating an open climate allowing people to freely express opinions, thereby engendering trust in the organization as a whole. Some partnering have "future leaders" programs in which tradesmen are selected based on skills, given leadership training and enhanced decision-making in their business unit. They are involved with specifically assigned projects and cover the supervisor's role in their absence.

Said one tradesman at a partnering site, "I think if we want change, we must take ownership. Under the old system, when we had even a small issue, we went to the supervisor and then did the whole chain-of-command thing. Now the guys I know in my area are making decisions on their own, given it's not something that would require a supervisor's OK." Clearly, this shows greater trust and credibility between the groups.

Another tradesman said, "We don't have any more slackers. We haven't got the group of people that stand around doing nothing that dragged down the input of the person who is prepared to work. We all work now."

Conclusion: partnering is profitable

Today, many companies have moved to this more value-added partnering approach. By engaging in partnering relationships with service companies that are world-class experts in their field, leading companies instill high-performance, complementary operations that keep abreast of (and create) industry best practices. These partnering firms support and even drive enterprise transformation, going beyond re-engineering the managed function and instituting real culture change.

Ultimately, a successful partnership rests on clearly defined performance agreements, mutual business targets and enlightened leadership. Both parties must work toward a common goal, with both parties reaping the benefits. Transformation is ongoing, and, as is the case with any relationship, includes growing pains and learnings. But the result is new business potential from increased plant performance, more production, higher quality, better skills, and freedom for the customer company to focus on its core, confident that the partner company has their best long-term interests in mind, and can prove it financially.

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