

Suppose You Had To Cons

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Suppose you had to give it all up (to a full outsource management contractor). The two major management functions that they would have to fulfill, or else

This article is directed toward both the outsourcer, and the employee absorbed during an outsourcing contract. During the last 26 months, outsourcing has become the single most compelling business issue facing corporate management. In a no holds barred campaign to become truly lean and mean entities, business professionals responsible for facilities and plant operations are making tough decisions on whether to keep maintenance work in-house, or to contract it with external outsourcing vendors. There are many post-signature outsourcer/corporate executive partnering issues to be dealt with, so put the brochure advantages of outsourcing aside. That most executives express relief at getting this "Necessary Evil," plant maintenance function off their hands, is a tragedy in the making.

They see plant maintenance as an expense, a high-priced peripheral function that has never appeared on an Enterprise Resource Planning flow schematic. "What the heck," they say; "We can outsource this function to the lowest bidder; they can have all the headaches involved with payroll, benefit administration, macho technicians, PM systems, parts stores & tool rooms, and all of that garbage." "I mean, we did the same with the in-plant printing department, and saved \$500,000 last year! But in-plant printing and reducing the costs of moving ash & trash, has nothing to do with determining whether your customers are going to do business with you, past this week; production throughput does! That is your first mistake!

To achieve best of breed, Class "A" ERP throughput, you have to have a good handle on the control of production and maintenance scheduling, plus a host of other manufacturing activities, the processes that assure product delivery. Key to throughput, is equipment capacity management. What do you say, when you hear that the President of a multi-plant food producer suddenly demands a corporate-wide outsourcing of plant maintenance: Why don't you just wheel all of your production equipment to the loading dock and push it over the side? For 35 non-stop years, I have been reminding management that production makes product, and maintenance produces equipment capacity. Now, my message is even more startling: The plant, divisional and corporate executives who are unaware of the "Maintenance Fit," within the Enterprise Resource Planning schematic, are about to make a second, tragic misjudgment.

They haven't the foggiest idea of whether their plants have the necessary equipment capacity available to produce products needed by their customer-base through end-of-week, let alone end-of-month. They don't know what plans their plant maintenance departments have to produce the necessary physical equipment capacity plant-by-plant, system-by-system to achieve these delivery goals! Now they are going to outsource this pivotal area of corporate throughput to those outside of the company, people who haven't an inkling as to how critical answering these questions is?

Statistics prove that an operating plant's survival, is often the function of how competitive its overall PQD (Price, Quality and Delivery) efficiencies are, as compared to your competitors. Too many corporate managers, consider today's maintenance department as a high-priced commodity – a convenience that has outlived any justification for keeping it in-house. I'm not as concerned as to where you decide to keep plant maintenance, as I am who you decide to manage it in the future, and how you oversee it!

Do your outsourcers have throughput management qualifications on the Enterprise Resource Planning plant floor, where malfeasance, customer loss owing to late deliveries, and the cost of regaining that lost customer, is about to become the next highly prevalent cost of doing business? How will their people, systems and operating assets be integrated with your corporate mission? I'm not giving you a reason not to outsource; I am asking you to requalify your outsourcing conventions, and what is going to happen to the very people who now perform equipment maintenance for you, after the contract is signed.

Outsource investing affects the lives of great numbers of employees, and involves the reinvestment of huge amounts of money, it is not a realm for amateurs. Unfortunately, as in the case of so many management practices, "Buy-In" occurs at one level, and responsibility for facilitation is expected to occur at a totally different one. Serious corporate consideration must be given to two mandatory deliverables: 1) Facilitation, the talent and systems needed to continue servicing the client's business characteristic, whether it is throughput-based manufacturing, process, or building and institutional, and; 2) Enhancement, improvement of the outsourced function, to bring efficiency and profitability to both the client, and the outsourcing firm.

What troubles me about this entire scenario, is that 60% of the decisions made to outsource this year, will involve emotional, latest fad-related rationale, and not well thought-out business practices. The attitudes on the part of both the acquiring outsourcer, and the current client employee contingent troubles me, as each has decided that the other is "The Enemy, and "A Group of Losers" respectively. That's not a business solution.

During this past year I have had several useful learning experiences pointing to what outsourcing should be. I had to take over several professional businesses from their previous management. It wasn't outsourcing; it was outright distressed business absorption. Involved, was taking over the client contract, employees, and administrative and account responsibilities, for business entities (divisions of major corporations) that had been poorly managed, to the point where their operations were discontinued, almost without notice. The regulatory supervised client had to receive uninterrupted service; we became a distressed business outsource solution.

Taking over the client base, involved assimilating a range of employee competencies and salaries, ranging from \$7.50/hour, to \$8.00, \$14.00, \$18.00, \$28.00 and \$30.00/hour respectively. It teaches you something, when you have to explain to angry, negatively attituded, recently "Absorbed" employees, that you cannot pay \$10.00/hour for a \$7.50/hour function, and stay in business. We had to deal delicately with the fact that perhaps their former employer went out of business for this reason. I learned an additional yet opposite value lesson from an absorbed employee: That for one \$30.00/hour employee investment, I received the supervisory strengths totally absent in three \$18.00/hour employees, making \$30.00/hour competency a comprehensive value.

For the outsourcer, such analytical insight is a must, yet too many of them look for people and technology "On the Cheap." Regardless of what is presented to a prospective client in pre-contract meetings, "On the Cheap" contractual fulfillment by an outsourcer, translates to that outsourcer's setting its client's business characteristics aside in the singular pursuit of profit. Having a callous attitude; a gross lack of consideration for a client's business characteristics, while stating the opposite, is fraud.

Outsourcers have to retain or provide a solid management cadre to the client, one capable of servicing the client's reliability characteristics. That's Facilitation. Then again, current maintenance personnel must give consideration to certain economic "Reality Checks:" Can the outsourcer afford them? What should be asked is how much can the absorbed employee do to enhance the value & profitability of the contract, with the outsourcer's supervision? What is evident, is that the outsourcer, and client employees truly depend upon each other, and are unwilling to admit it!

For the absorbed employee, the survival issue is value structure: Value = Function/Cost. Value structure, is the cost rationale for providing their function to the organization. If the pay scale for a position is \$ 34-60K/year for their function, and an incumbent is being paid \$ 58K, naked logic would not suggest that they be downsized. If the outsourcer is totally convinced that a lower cost employee could do the work, the logical argument is over, but what about the current employee's intrinsic knowledge of the businesses' throughput characteristics?

Unless the outsourcer has that know-how, replacing it could come at a high cost. The outsourcer will only survive if they can present highly enhanced, positively disproportionate value to the client, while retaining a profit from the engagement. It spells integration with plant throughput & facility reliability missions, all at a mutually affordable price. Too often, I see eminently valued employees; people having detailed plans regarding increased efficiencies and reduced plant maintenance costs, resigning positions with their companies, in a mass defection of the facility after an outsourcing contract is struck.

These people leave the company, not realizing that perhaps they would be better off working for the outsourcer, who is a more sophisticated and perhaps, a superior businessperson, one desperately needing on-site entrepreneurs. A sophisticated outsourcer could be the one who can insist on mission, people, solution, and

hardware-asset integration with the client's business mission. A smart outsourcer will wring numerous performance enhancements and savings out of an intrinsically knowledgeable and motivated site-manager. I have witnessed opposite, and dumber actions of an outsourcer, one who discards an experienced site manager, and more sophisticated hardware/software for a lower-cost "Site Management Solution on the Cheap" to fulfill the facilitation function and profit forecast. There are outsourcers who just want to acquire the contract, and then proceed to fight fires until end-of-contract.

In my experience, I quickly learned that my company, and the assimilated employees were the keys to success, the primary assets brought to the table. Forgive me for this arrogance, but necessary or not, all that today's outsourcing clients feel that they have to bring to the table is a signature, and a bank balance. Most outsourcers erroneously view a contract award as a victory over internal employees, when in fact the opposite may be true. In a substantial number of cases, the client hands the outsourcing vendor an excellent, knowledgeable throughput team, not realizing or interested in their value. To the outsourcer I say: Take these wonderful people, challenge them with enhancement of client operations, and improvement of the outsourced function, again, to bring both efficiency to the client, and profitability to the outsourcing firm. Build solutions that can be replicated at client site after client site; you develop a team solution, you implement it, you've still got it to implement again.

One hardly known rule of this game is manifest for outsourcers: It takes money (technology, sophistication & people investments) to make money in outsourcing. The former employer (now client) was unwilling to invest money in technology for plant maintenance performance improvement owing to their inability to correctly analyze Return On Investment. Having an intensive service bureau background, I would challenge my absorbed employee contingent with a startling question: If I supply you with these technology assets, how much money (Return On Structured Risk) are you going to make for me by using it?

Building an absorbed employee's mission vision is serious business; getting them excited about working for you is even more so! Ask them for a business plan, and if they don't know how to build one, then help them to do so! Show them how they are going to contribute to the success of your contract, and you'll get a roomful of smiles; ask them for an ROI, and you'll get glazed looks. Convert them into yourselves; teach them how to be better, more sophisticated businesspeople. Lay out a career path for them. The merest inflection of tone during that first interview can either cement a loyal relationship with an absorbed potentially valued employee, or create insurmountable losses when you lose them, almost without notice.

I'm not against outsourcing. Unfortunately, we live in a world where a few outsiders are more excited about getting the job done for us, then a few of our fellow employees are, but I still want the client to avoid a catastrophe. What seems to differ the outsourcer from the outsource client, is that the outsourcer has no choice but to be a competent businessperson, or perish. There is no core business to absorb departmental inadequacies; there is only the client contract, through which the outsourcer has to deliver results! The outsourcer has to make profit, however they also have to deliver viable function. There is a real-life-balancing act, between revenue and expenses.

The market for reliability outsourcing services is expected to surge to \$223 billion by the year 2010, according to The Outsourcing Institute. 89% of the executives surveyed by the International Association Of Corporate Real Estate (NACORE) outsource development and construction, and 20 % of them currently outsource 100 percent of their work. 79 % of real estate executives said they expect the use of alliances in outsourcing by the corporate real estate industry to increase during the next two years, according to a study conducted by the International Development Research Council (IRDC). 58 % of the executive surveyed said that outsourcing is absolutely essential or of major importance according to a Pitney Bowes management survey of 330 large and midsize Dun & Bradstreet companies.

These statistics reminded me of a message delivered to a room full of IBM executives including myself over 35 years ago. It was delivered by of all people, its Chairman of the Board. "When you contract with a corporation to provide a critical services, there is going to be a point in time, you are going to hold the blood and guts of that entity in your hands. It is an awesome responsibility." I pray that the outsourcing firms who read this, will take that obligation to heart. IBM got to be as successful as they are, through the consideration of two issues; thinking out deliverables that match client needs, and use of continuously inspired talent to oversee their delivery. It's a simple enough formula to explain; it just takes a lifetime to actualize.