

Working together

Legacy cost reduction exercises and the difficulties associated with replacing an ageing industrial workforce have lost companies large amounts of in-house skills and knowledge - so to fill the gaps, subcontractors have been employed on an ad hoc basis across the board. The rapid growth of large engineering subcontractors due to huge demands on skilled resources has, over a relatively short space of time, created service companies with very strong business positions. These powerhouses attract the small numbers of young people interested in industrial engineering careers, as well as skilled migrant workers, due to better pay and the attraction of varied roles and faster career progression.

What can be addressed though is the way that subcontractor relationships are managed. In many cases, contracts are rarely reviewed and roll over year after year with little or no checks on performance or benefits delivered, leading to rising costs. Increased competition and, more recently, economic turmoil are pushing companies to reduce costs. Focusing on improving contractor management will deliver fast, significant improvements to your bottom line.

Competition

A large European petrochemical site needed to redefine the way in which it responded to the challenges of global competition. Several thousand employees and subcontractors were required to review their priorities and way of working. There was a natural reluctance and fear to engage in change. With the support of external consultants the plant was able to develop an approach that uncovered previously unknown employee skills and allowed many elements of project and spend to be brought back in-house. Subcontractor hours due to HSE and work permit regulations were decreased by dramatically speeding up gatehouse and compliance processes. The project identified 20 per cent reductions in contractor hours.

At a chemical company, it was uncovered that the single biggest opportunity to save

Many different industries are reassessing the balance of in-house services and subcontracted work





money was within the maintenance department. In order to lift productivity in a truly sustainable manner, the processes, interactions and prioritisation behind the major internal and contractor-driven maintenance activities had to be analysed. Given the nature of the local labour laws, strong works council representation and age profile of the workforce, it was felt that the immediate cost reduction objectives could only be met by 'liberating' internal capacity, such that contractor numbers and hence costs could be reduced. Activities that had been given to contractors were also analysed for skill requirements, complexity and timing. The shift from a reactive maintenance culture to preventive ensured fewer machine breakdowns, consistent production rates and a significant increase in production capacity. Improved coordination facilitated a 30 per cent reduction in contractor numbers and associated maintenance costs. The production staff were able to plan and run their assets with greater consistency, achieving a seven per cent uplift in overall equipment effectiveness and 20 per cent improvements in output for higher margin products.

Infrastructure

A large metro railway operator was responsible for internal and external maintenance teams to look after rolling stock, stations, signals, 150km of track and associated infrastructure. In total, it employed 3,000 people and a further 3,000 via contractor organisations. With much of the work previously undertaken in-house having been contracted to third parties, there was also a need to review core competence and roles and responsibilities. The study showed that staff numbers were inflated for a number of reasons:

- Internal duplication of contractor management activities and structures;
- Some service contracts not actively managed or linked to appropriate service level agreements and key performance indicators;
- Insufficient levels of interaction between units and departments; and
- Some contracts and spend aligned to asset performance were either not completely understood, or consistently measured.

The joint external/internal improvement team identified that uncertainty relating to accountabilities, roles and responsibilities was the key factor inflating overall staff num-

bers. The immediate benefits were:

- A short-term headcount reduction based upon part-time and consultant avoidance saving £500,000;
- The installation of a skill matrix and assessment methodology; and
- First meetings with key contractors using KPIs and the immediate improvement in contractor performance and identification of corrective actions.

Duplication

The long-term benefits of the project were to stop the duplication of tasks - which led to the identification of lower headcount - saving £2 million. A hiring plan for new staff aligned to requirements of asset management and the introduction of formalised coordination between operations and project teams was also put in place.

Subcontracting companies - in particular engineering subcontractors - are also aware of the need to improve processes, reduce costs and become more efficient, but their drivers are different. They see their clients focus more on reviewing existing agreements and want to work better with them, but also because there is so much demand for their services that, in many cases, they have been turning down business. Subcontractors need to utilise their staff better so that they can offer a more cost-effective service to their clients and ultimately have the capacity to take on more projects on behalf of existing clients and new accounts.

Efficiency

Due to internal change, a subcontractor providing services from planning and assembly to maintenance and repairs of assets had to be consolidated and existing processes modified, so it was essential to increase efficiency. The objective was to achieve cost savings of €800,000. KPIs for the daily planning and control of resources were lacking and a robust operations management system for planning, control and reporting was not in place. To reach the desired savings, it was essential to improve processes by installing management systems, efficient processes and establishing clear areas of responsibility and training programmes. They needed to identify critical value-adding activities so it was possible to pinpoint and analyse process and managerial capabilities. Four key indicators were defined: planning, performance,

productivity, and seasonal factors. Through daily talks with staff focusing on these four indicators, it was possible to gather the necessary information to implement systems to control construction activities almost in real-time. The introduction of Short Interval Control made it possible to recognise variances, allowing timely action to correct low staff productivity. To ensure sustainability, an external improvement team trained and supported staff on site in the application of the new management techniques. In order to support the process redesign and organisational improvements a comprehensive management education and training programme was introduced. The project was completed within six months on time and on budget. The business was able to increase the gross value of contract variances within the financial year by €480,000. Compared to an initial value of €135,000, this amounted to a total increase of around 300 per cent. The service company was able to increase billing for services by €100,000, due to the various value add measures that had been implemented. The positive trend continued after the project was completed and the goal of achieving cost savings of €800,000 was reached by the end of the first year. The programme had a considerable influence on the attitudes, awareness and behaviour of the company's supervisory personnel. They now see themselves as "business people working in a business enterprise" and feel responsible for the performance of their staff. Furthermore, they now work proactively rather than react to situations and key resources - such as staff, equipment, vehicles and materials - are now being used much more efficiently.

Effective contractor management is essential within maintenance management and technical projects. Getting the most out of contractual relationships can be challenging and guaranteeing trained, competent, professional contractors problematic due to demand. If you consider risk management, training, partnership models, planning and scheduling, contractual monitoring and IT, it is hardly surprising that the issue of contractor management is becoming increasingly important. 🇬🇧

Rupert Clark is marketing manager of TA Cook. Dirk Frame is UK managing partner for TA Cook.

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