

# PIP SPEAK

THE NEWSLETTER OF  
Partners in Performance

## Getting the most out of your contractors?

Do you ever get the nagging feeling that:

- contractors represent a growing part of your organisation?
- you are spending too much on contractors?
- you're not getting full value for the money you're spending?
- you don't know enough about contractor usage across your operations?
- safety management may not be as good with your contractors and that this is a risk?
- you don't have appropriate controls in place on the use of contractors?
- you don't regularly see useful reports on contractors?
- you don't properly manage the contractors you use?

If you answered 'yes' to most of these questions, you are not alone.

As more and more activities and services are outsourced to third party contractors and cost pressures on businesses increase, the effective management of contractors is emerging as a major issue for managers around the globe.

PIP has extensive experience in effective contractor management, having in the last few years tackled the issue from both a cost and safety management angle at more than 20 mining and processing sites.

We have over this period developed robust, detailed methodologies that enable sites to rapidly deliver results and then to sustain these over the long term.

This newsletter covers the key elements of our approach on the cost reduction side and an article on the safety management side is planned for a later newsletter issue. The degree to which each of these elements is applied will depend upon the specific circumstances and the level of sophistication of contractor, safety and cost management at the site. →

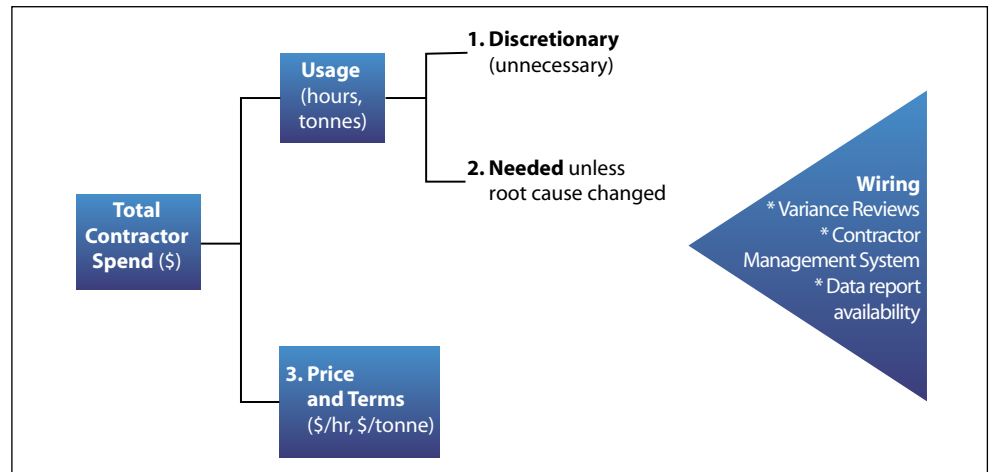
### Partners in Performance

Partners in Performance builds better businesses. We deliver rapid performance improvements in industrial, resources, manufacturing and service companies, using a specialist team and a hands-on-approach. At sites such as smelters, paper mills, mines and railways our specialists consistently deliver lower costs and higher revenues.

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## 1. Collect data

Without the data, you won't know where to focus your efforts. To start the process you need to know how much is spent on what services, on what contractors and by which department. If the data isn't readily available, then you need to immediately put tracking in place – if you can't measure it, you can't manage it!

## 2. Apply controls

This element of our approach targets awareness and a rapid reduction in discretionary (non-essential) contractor spend. It is the first step to creating a strongly cost-focused culture where people spend money as if it were their own.

The four controls described below combine to rapidly change the behaviours and the mindsets of the site managers (from supervisors up). Management's current level of cost knowledge and control will dictate which of

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this is used at a particular site.

### (i) Gate Control

As night follows day, work tends to be found for contractors if they are on site. Gate control is therefore an essential first step in any system aimed at reducing discretionary contractor usage. The aims of gate control are fourfold:

- control access to the site ("don't let them in unless authorised")
- control departure from the site ("get them to leave as soon as the authorised work is done")
- establish a credible fact base on contractor usage
- contribute to contractor safety management by ensuring that only authorised and inducted contractors are on site.

If existing gate controls are weak, a short-term manual solution can be implemented in a few weeks. It can take months to implement an IT-enabled automated solution.

### (ii) Authorisation Processes

This may involve reviving an existing system or putting a basic system in place. Initially we suggest instituting a lower than normal authorisation limit for contractor spend.

For example, for the first few months all spends over \$10,000 go to the GM for approval. Whilst this might be considered overly restrictive, our experience suggests that it is a necessary interim step to firmly embed a culture of knowledge and accountability for contractor spend. It forces managers to get in touch with what they are spending, to coach their subordinates to critique and challenge spend and finally to reinforce the importance of cost control. Once this has been achieved, limits are increased and people are managed against budget.

Standard authorisation forms are typically modified to require users to justify:

- why they need a contractor
- why they can't do the work internally
- how many hours are required
- the use of the chosen supplier (by showing that procurement policy has been followed - preferred supplier or 3 quotes)
- the root cause need for the contractor if it is a repeat spend.

Authorisations are then fed into the gate control system (initially manually, but eventually electronically) so that entry to site is not allowed without authorisation and is restricted to a timeframe close to users' estimates of time required (to hasten contractors leaving site once they are finished).

This stage needs to be carefully handled to avoid a negative response from the managers impacted by the changed procedure. We have found that a consultative process, using facilitated sessions to explain the rationale for the change, and where it fits into the overall approach to contractor management, results in far greater co-operation and acceptance by the managers involved.

### (iii) Gate Contractor Tracking

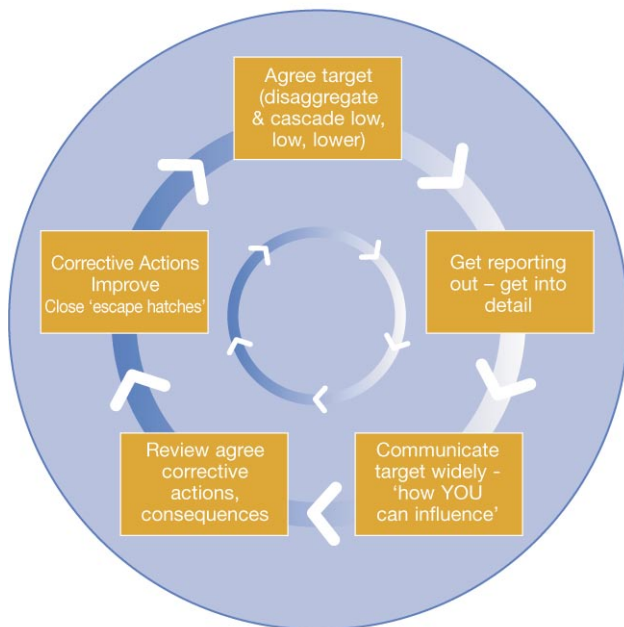
Most sites we come across don't have an effective and timely contractor tracking process - one that records for each contractor coming on site both the user and the number of hours used. At best, contractor spend is tracked through the accounts – leading to a significant lag between actual use and reporting and review, which in turn makes it difficult to hold managers to account. To achieve the required behavioural change, the lag between actual contractor use and reporting needs to be substantially compressed through the weekly reporting of a leading indicator such as contractor hours or committed spend. Of the two, the former is typically the fastest to put in place – leading to traction on the reduction of discretionary contractor usage. This process is most often first implemented manually and then gradually automated.

Gate tracking is essential if behavioural change is to be achieved rapidly - using the accounts involves an

unacceptably long time lag which significantly dampens the feedback loop and makes it more difficult to hold managers to account on usage that occurred five weeks earlier.

#### (iv) SPIN

Implementing the SPIN process initiates the desired behavioural change. But each of the gate control, authorisation and tracking processes must be in place before asking people to do things differently. Otherwise your ability to hold people to account will be severely undermined by data that lacks integrity. As the SPIN methodology has been covered in prior newsletters, only the overview graphic is shown here<sup>1</sup>.



**Diagram 1.**  
PIP's Spin Cycle methodology – a powerful approach to rapid behavioural change.

Communication to contractors on the new rules for site entry is rolled out at this stage, as is internal communication about the new authorisation process. The latter is combined with targets for contractor usage reduction targets for the accountable managers. The faster the tracking and reporting of contractors can be done by individual accountable managers, the faster the SPIN process will get traction and managers will start to reduce their use of discretionary contractor spend.

### 3. Eliminate root causes of contractor usage

Once behaviours and mindsets have started to change, and discretionary contractor usage and spend is under

control, managers and their teams move on to reviewing the underlying reasons for contractor use with the intent of systematically removing these.

The process typically starts by building a driver tree for each contract service used on site. The purpose of building these trees is to identify the key drivers of the total cost of using a contracted service - not just the purchase cost, but including the cost to the business of downtime, subsequent repair work, induction costs, impact on total housing cost for the area, etc. From here, structured idea generation sessions are held and the best ideas put through an idea pipeline to ensure appropriate risk assessment, ownership, planning, execution and lock-in.

In parallel with this stage, our team typically works with the procurement/supply team to renegotiate key spends and capture savings. This step commonly receives the most attention in efforts to control contractor spend. Whilst not ignoring this as a potential source of value, our experience is that the elimination of both discretionary spend through the implementation of tighter controls and root causes of contractor usage are far richer seams to mine in the search for value.

#### Case Study...45% reduction in industrial cleaning costs

Our client was spending \$2.2m on industrial cleaning. We were able to reduce this spend by ~\$1m through a combination of measures:

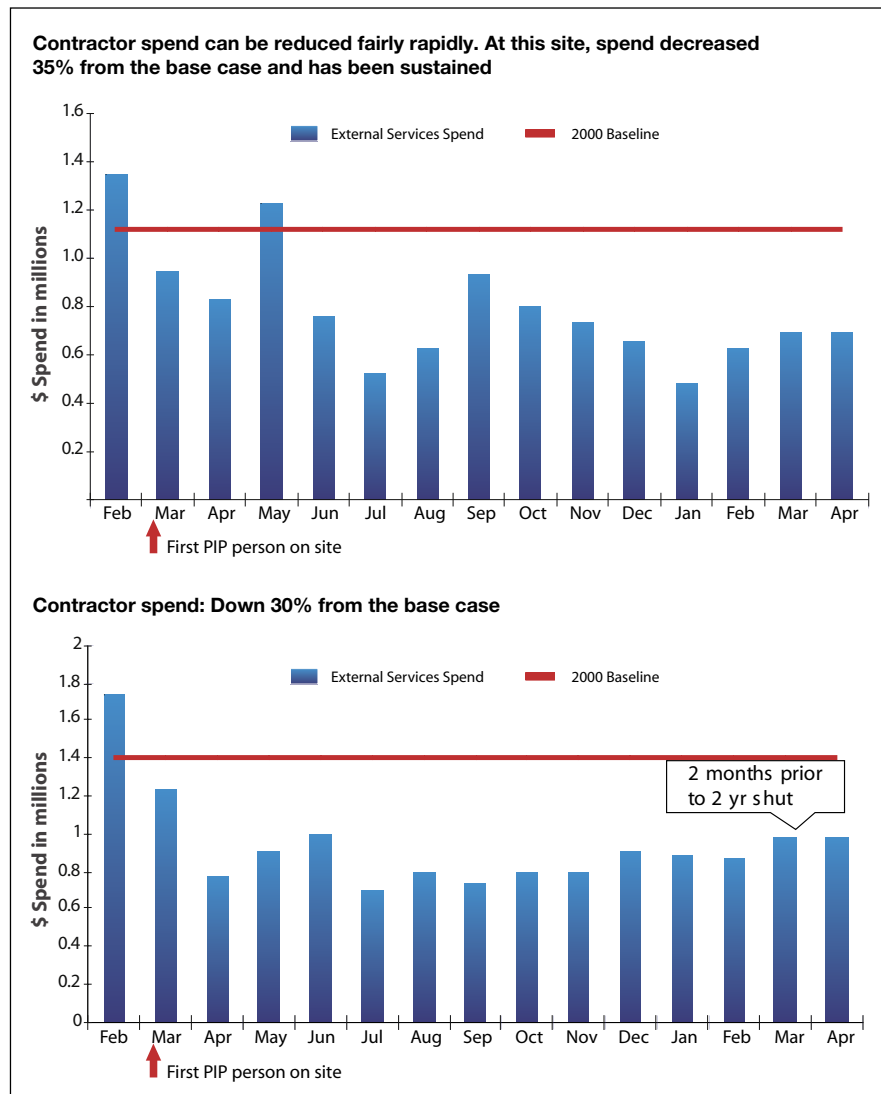
- Controls implemented to eliminate the discretionary use of industrial cleaning contractors – this included getting operators to clean up their own spills and overflows from conveyors rather than immediately picking up the phone and ordering a contractor to come and do this. In turn, this encouraged the department to start to think about the root cause of the cleaning needs and start to work on these
- Contractor reduction targets set for all departments and included in cost budgets. Departments given access to additional resources to help to identify improvements. Accountability for reduction kept with the line
- Variances reported and investigated and specific actions agreed for usage reduction
- Ideas generated to eliminate the root cause of some spend. For example, a common cause of conveyor spillage is damaged or mis-aligned scrapers. Ideas were implemented to reduce root causes of damage to the scrapers (often caused by poor belt repair) and to check scraper alignment as part of regular inspections along the belt. Similarly, procedures were changed so that dry cleaning of spills by broom and bobcat was done in preference to hosing down these spills and piles

<sup>1</sup> SPIN graphic from PIP Speak, Issue 1, page 2.

- which in turn greatly reduced the amount of material washed into the sump, reducing the use of costly vacuum trucks to clean out the sumps.

- Transferred some tasks to internal resources
- Competitive negotiations held on price/terms
- Internal planning improved for resource sharing and demand levelling across site and for scheduling of contractors. This included always trying to order the lowest size piece of equipment rather than the 'be safe, order the largest' mentality, it included levelling the load across the site so that contractors were used back to back for a few days which reduces mobilisation costs rather than two departments bringing the contractor on site at two different times during the week.

Like so much of the work we do, a large (45%) reduction, made up of numerous small technical and 'wiring' ideas which together combined to create a significant saving.



## 4. 'Wire' the site for sustainable effective contractor management

As work progresses on the first three elements, 'wiring' is put in place to sustain effective contractor management over the long term. This 'wiring' includes the implementation of:

- a budgeting process where managers are required to contain their contractor spend within the budget through planning and pro-active management
- automated tracking and report preparation (to replace the manual tracking that supports rapid behavioural change)
- vendor reviews where vendors and line managers review performance and progress to systematically reduce costs together
- management training in the basics of effective contractor management
- an improved process for managing contractors on site (including the training of contract owners for that

specific role and the establishment of internal reviews of contract owners covering their performance in managing contracts).

These four elements interlock to create a disciplined process for the ongoing effective management of contractors.

To implement an effective contractor management process typically takes 5-6 months to reach the point of sustainability. As can be observed from the results shown below, a high proportion of the savings can be achieved earlier than this – but at this early point they represent a 'project' behavioural change that will not be sustained unless they are 'locked in' afterward.

In our experience, sites exercising little control over contractors also offer significant opportunities for general cost savings. Broadening the scope of the contractor management work to include all other site costs gives you better payback on your consulting spend as you will be able to better leverage your people.