

Performance-based services for industrial markets



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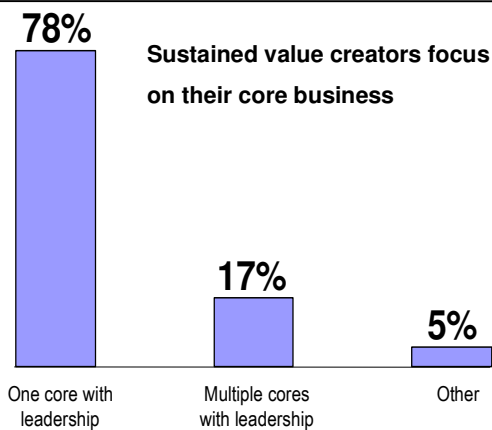
The changing face of plant management relationships

Global process industries, as well as discrete manufacturers, face a number of challenges. All are under pressure to improve productivity and reduce costs. At the same time, all need to meet strict industry standards for the environment, health and safety in addition to maintaining a skilled work force. A way in which companies can achieve these goals is to concentrate on the core of their business, while partners assume responsibility for non-core areas.

Focusing on the core business

The belief that an industrial or product-based company's strategic advantage derives from its core competencies – its high value-added internal activities – is widely accepted in strategy formulation.¹

The oil & gas sector is a frontrunner in maintaining focus on core business competencies. The companies that sell and distribute oil and gas are increasingly narrowing their focus on this portion of their core business, outsourcing not just the design and construction of new plants, but also partnering with companies for management and lifecycle support of production assets.



Out of all companies providing sustained shareholder value, nearly 80% focus on their core business, divest non-core businesses and form partnerships to address non-core activities.

Source: Bain & Company

This shift brings new responsibilities to service providers. These innovative relationships require suppliers to take responsibility for the performance of their services over time. In an environment where an oil platform or a power station is capable of producing over a million U.S. dollars of product per day, enhancing lifecycle reliability can bring significant improvement to the process and manufacturing industry's flexibility and profitability.

After years of downsizing and emphasizing core competencies, manufacturers are having difficulty relying solely on internal staff to meet the demands of maintaining their equipment and facilities. Innovative partnerships that emphasize shared risk, common objectives and business benefits tied to customer results are redefining the supplier/customer relationship. Manufacturers can and should expect industry-specific solutions that impact Overall Equipment Effectiveness and reduce Total Maintenance cost.

¹ Charles Zook and James Allen, *Profit from the core: Growth Strategies in an Era of Turbulence*, Boston: Harvard Business School Press, 2001: 11.

"ABB Full Service has proven to be a valued global service permitting customers to cut costs, improve productivity, eliminate overhead, share risks, focus on core business and establish profit-centered maintenance. Mutually established KPIs with customers such as Alcan, Georgia Pacific, ExxonMobil and Inco help ABB measure and improve performance to meet or exceed expectations."

Houghton Leroy, ARC Advisory Group

Asset efficiency: Beyond cost cutting

Over the last decade, companies have made attempts to improve the productivity of their assets by creating just-in-time inventory systems; improving working capital; and outsourcing non-strategic activities to more efficient suppliers. While these efforts have yielded results, pressure from the investment community to improve shareholder value continues to increase. This persistent pressure for improvement is driving a renewed look at asset productivity gains. Two powerful trends are at work:²

The exhaustion of traditional cost cutting. For more than a decade, companies have cut costs in order to reduce operating expenses and improve margins, pushing a growing number of companies to look to increasing asset efficiency as an alternative.

Changes in industry structure. Economic and technological forces are driving long-term changes in industry structure. Vertical integration and asset ownership are no longer competitive requirements in many industries.

Business models based upon minimal asset ownership and high levels of asset productivity will enjoy the greatest success in today's economic environment.

New risk-sharing relationships

The evolving trend is toward performance partnerships. The implementation of this model provides the process and manufacturing industries with services under a performance-based, services model. The best of these arrangements occur when the customer and provider work as an integrated team to jointly develop a business model that supports both the customers' strategic business objectives and aligns the service solution with the customer's profit engine. The resulting business case identifies sources of value that can be derived from the implementation and long-term support of performance-based services.

ABB has met this need with Reliability Services, which offers performance-based maintenance solutions. From hosted maintenance management services to reliability consulting to long-term Full Service maintenance management, ABB focuses on improving productivity while optimizing costs.

Through these services, ABB shares risk for performance results. In return, ABB and the customer share in the additional benefits created. These relationships also allow partners to leverage their joint size and scale for the benefit of both. It means taking a long-term view of efficiency and creating value rather than only focusing on cost.

Typical sources of value for the customer include:

- Increasing Overall Equipment Effectiveness (OEE)
- Reducing Total Maintenance Costs
- Creating a reliability mindset and culture
- Improving plant safety

Implementation of this reliability business model facilitates the customer's ability to execute important manufacturing and production programs such as lean manufacturing.

² Ron Nicol and Philippe Amouyal, "Asset Productivity: The Next Wave," [Internal Innovation Series](#), The Boston Consulting Group, 1999,1.

Case study: Voisey's Bay Nickel Company in Labrador, Canada

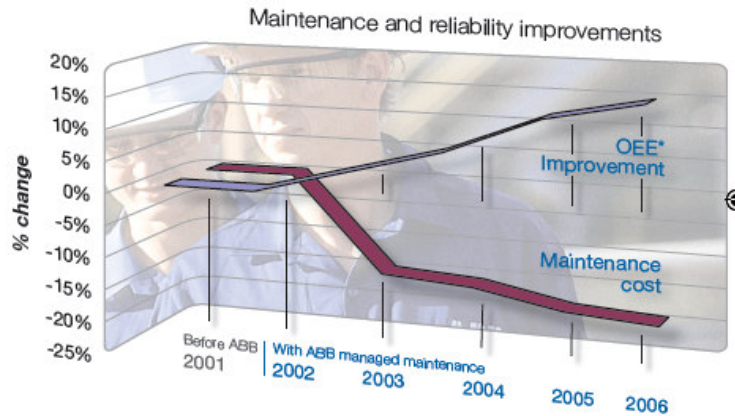
In September 2006, Voisey's Bay Nickel Company opened a greenfield site in a remote part of Labrador, Canada, more than 350 km from Goose Bay. The area is so remote that the site is 250 km from the nearest road and employees have to be flown in for 14-day, 12-hour shifts. ABB Full Service® handles all the maintenance operations, including management, planning and execution as well as keeping inventory of spare parts for VBNC.

"It was important from a business perspective to have a fast ramp-up installation, thus we wanted a well-established approach to performing maintenance," said Joe Holmes, manager of the concentrator facility at the mine. "Beyond the ramp-up, we felt that the steady-state performance would be improved with a good contract arrangement, versus developing an in-house program."

Having ABB Full Service® as the maintenance provider since inception has allowed VBNC to surpass 1000 days (and counting) of 0 days Loss Time Injury (LTI), achieve 15% above 2007 third quarter Overall Equipment Effectiveness (OEE) targets and win the Bronze medal after their first International Reliability Excellence Assessment.

Financial flexibility

Performance-based partnerships offer tremendous advantages to manufacturers. In addition to driving key financial objectives, these arrangements offer the customer an opportunity to closely link performance to production. These arrangements can also avoid significant capital expenditure requirements by extending the life and productivity of existing assets.



Actual results with ABB Full Service at a paper mill.
*Overall Equipment Effectiveness

Tying compensation to plant results ensures consistent alignment with the customer's business priorities. ABB believes the performance aspects of compensation are critical to drive appropriate behavior and focus.

Conclusion

The sustainability and investment return of plant reliability is a fundamental issue, and manufacturers can no longer afford to know everything about maintaining a world-class facility.

Customers should demand much more than basic services from their supplier. A partner with an understanding of their customer's processes and the ways in which their solutions impact

how the customer makes money is essential to these new relationships. More importantly, the supplier must be prepared for a long-term commitment to ensure that performance is achieved on a daily basis and should be compensated accordingly.

ABB is committed to creating value for customers. Our Reliability Services are a demonstration of our commitment to constantly focusing on new and innovative ways to bring value to our customers. By bringing together excellence in reliability management, world-class business processes, and innovative execution models, ABB delivers results for our customers.