

# At your service



Outsourcing service and maintenance can provide terminal operators with cost and productivity benefits, writes **Benedict Young**

In recent years, a growing number of terminal operating companies have opted to outsource maintenance and service functions. Consequently, service has become a profitable business to be in. Some major cargo handling equipment manufacturers (OEMs) now derive 30% or more of their profits from service – a welcome revenue stream at a time when sales of equipment are severely reduced. And besides OEMs, there is a variety of specialist firms offering service packages to ports and terminals.

Finnish equipment giant Cargotec says service has become a core part of its business strategy and Gottwald Port Technology offers a full range of services, while some other OEMs focus only on shipping equipment and spare parts.

Gottwald marketing director Peter Klein says: “We will optimise and extend our service product portfolio to meet customer needs during the entire product life cycle, from spare parts supply to service packages for single machines and integrated service solutions for entire equipment fleets.”

Mark Williamson, senior VP services for the EMEA region at Cargotec, says a 20% cost reduction is common for terminals outsourcing maintenance.

But there are drawbacks as well as benefits to outsourcing service functions. Benefits might include efficiency, flexibility and performance, says Williamson, while less involvement and control may emerge as drawbacks.

Klein points out that terminals can reduce or eliminate the need to employ their own service staff, as well as the cost of specialist training.

Paul Howard, director of Rapid Rail, an engineering company specialising in crane rail systems, agrees. Outsourcing offers control over costs without employee rights, holidays, sick pay and pensions becoming an ever increasing burden, he says.

“Services are only purchased when needed, and are tailored to the requirements of the port operator,” he adds. “Risks are, of course, present. Skill and competency levels, combined with health and safety considerations are always, there, but provided there is adequate control and professional management in place, this should not be an issue.”

Larry Lam, chairman of Portek – which provides ports equipment, services and solutions, as well as operating medium-sized container and multipurpose ports – says

mobile equipment and back-office systems are traditionally more suitable to service outsourcing, whereas quay cranes and RTGs tend more often to be owner-maintained.

“This is because owners tend to regard such equipment as critical assets, and less easily replaceable than mobile equipment,” Lam explains. “Still, there are numerous ports where maintenance outsourcing of container cranes has been successful, such as in Indonesia, Mauritius, Reunion Island and Malaysia.”

In Indonesia, PT Portek Indonesia and its sister companies have been contracted by various port companies to maintain 26 quay cranes and 35 RTGs in seven ports.

Lam says that by outsourcing, terminals can take advantage of the economies of scale enjoyed by specialist maintenance contractors (MCs), in terms of manpower, competence and spares.

“If port A requires more manpower for a major service job, the MC can deploy the extra labour needed from another team in, say, port B, which may have some spare manpower,” says Lam. “Similarly, if port A needs spares, such as ropes or filters, the MC could deploy such items from its other locations.”

Specialised knowhow – troubleshooting crane drive systems, for example – is difficult to nurture and retain. MCs regularly encounter such issues and have the experience and skillsets to deal with them, adds Lam. In such instances, outsourcing enables terminals to achieve higher equipment availability and reliability.

Other benefits of outsourcing might include less bureaucracy in state-owned terminals, defined performance criteria, higher equipment availability and, thus, potential to postpone new equipment purchases and the freedom to focus on core operational matters.

Conversely, some terminal operators may be insecure about having to rely on outside parties to maintain critical equipment, suggests Lam. This, of course, depends on the availability of reliable and competent MCs and their ability to establish long-term relationships.

And outsourcing services may not necessarily save terminals money, compared with employing their own staff, making it difficult to justify on cost alone.

“However,” says Lam, “if the evaluation also takes into account the benefits in terms of reduced equipment downtime and so on, the benefits should outweigh cost issues.”

Klein says the risks associated with service

outsourcing can be minimised by selecting an MC with proven comprehensive knowledge and a track record with the relevant equipment and components.

“This is guaranteed if the equipment supplier also provides servicing,” he says.

Companies can also reduce the risks by selecting only certain functions for outsourcing. Gottwald recommends starting with preventative maintenance.

“Thus, the need for manpower is minimised and proper preventative maintenance is the premise for a high availability of the equipment,” says Klein.

Lam suggests terminal operators could begin with the more routine work, such as wire rope changing, lubrication, washing and cleaning services.

Most suppliers offer a variety of service packages to suit a terminal’s needs. Williamson says Cargotec’s offer includes payment per hour, or payment by performance.

Gottwald offers its Basic, Comfort and Premium packages. Basic is intended for customers that prefer to carry out maintenance and parts replacement with their own teams, but provides back-up access to Gottwald experts and spare parts procurement. Comfort provides regular



Gottwald offers three levels of service package



Lam: troubleshooting is a specialised skill



Williamson: cost reductions for terminal operators

preventative maintenance work by certified Gottwald engineers, while Premium includes preventative and non-scheduled maintenance.

The benefits of outsourcing to OEMs may also depend on the type of equipment involved. Lam believes OEM-conducted service is most suitable for mobile

equipment, such as reachstackers, forklifts and terminal tractors.

“For mobile equipment, the operating hours per year and number of moves per year are important factors which need to be considered in costing the maintenance contract,” he says.

“The state of hydraulic-driven equipment depends heavily on usage. Equipment OEMs are in a good position to provide outsourced maintenance to terminal operators, because of their knowledge of their own brands, the ready access to spare parts and their expertise.”

Over the past year or so, the global economic crisis has prompted many companies to review their operational structures and cost bases. This has inevitably affected service outsourcing, but in various ways.

“We have detected a heightened interest in maintenance, refurbishment and preventative solutions as the

recession has bitten,” says Rapid Rail’s Howard.

Cargotec has seen a more mixed response. “Some customers have seen this as an opportunity to review their business and determine that maintenance is non-core and can be outsourced,” says Williamson. “Others have seen the crisis from the perspective of keeping their employees occupied.”

Gottwald has also observed that terminals want to keep their personnel occupied with maintenance and service work, but expects outsourcing to pick up as the economy improves.

“Once the recession has ended, the interest of terminal operators in outsourcing service will increase, as they have to focus on handling the increasing terminal throughput,” says Klein. “Outsourcing service will enable terminal operators to concentrate on the core processes of their business.”

However, Lam warns: “Some terminal operators may be shortsighted and undertake cost-cutting measures which eventually will undermine the quality of service and safety of the equipment.”

“The more enlightened ones could, in fact, use the recession to design a way to outsource which will actually help in reducing costs directly, apart from those less quantifiable benefits such as equipment availability and reliability.

“Smaller terminal operators can look at outsourcing some of the functions where employing full-time staff may be unjustifiable. This could, again, help to cut costs immediately.” **CS**