



# Annual Maintenance Contract — A Management Perspective

**A**nual Maintenance Contract (AMC) has become an integral part of Hospital Administration. There are several reasons for this emerging trend. An attempt is made in this article to explore the current trends in AMC management, highlight the importance of AMCs and enumerate the essential components of an AMC.

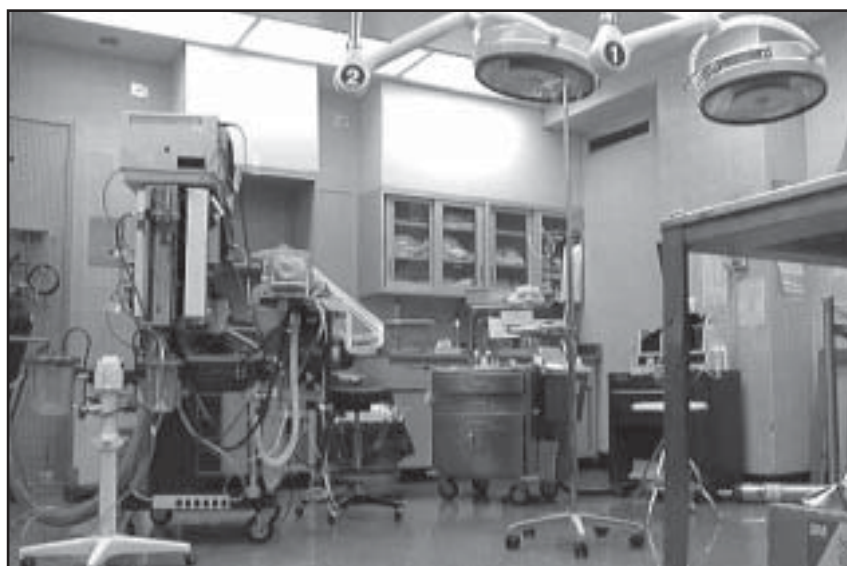
## I. Importance of AMCs

### 1. Technical sophistication has grown enormously

Over the last few years, the sophistication of medical care equipment has increased over a gamut of complex technical areas. Right from a simple thermometer to a complicated MRI Scan machine, there has been sophistication because of newer engineering applications. Due to this, it is impossible for each healthcare institution to have separate qualified and experienced personnel who could fix and maintain the entire range of equipment. For very high-tech equipment, only a handful of people are available in the whole country and obviously it is not economically viable to hire them as employees.

### 2. Downtime could be expensive

Machines have taken over laborious procedures. For example, our clinical labs which depended on skilled manpower have switched over to machines which could handle huge number of samples at the same time and give quick results. However, this kind of benefit would have the danger of an undesirable machine breakdown. When such an unforeseen event takes place, the loss incurred could be



enormous. Another example is CT Scan machine. It could earn an average revenue of Rs 50,000 to 75,000 per day but if the machine does not work for a week, the loss could be to the tune of Rs 3 to 5 lakhs.

### 3. Preventive maintenance could save a lot of time and money

Each machine would have serviceable parts as well as non-serviceable parts. By virtue of long experience in handling such equipment, it is possible to predict and identify the parts which are at the verge of collapse. A preventive maintenance schedule could save precious downtime by timely replacement of such parts.

## II. Types of AMCs

### 1. Service only

Under this type, the service provider gives only service support and would charge separately for every

part that is replaced. Normally the number of visits during that AMC period is mentioned.

### 2. Limited parts

In some cases, a few parts would have to be changed during each visit by the service engineer. Examples of such parts are silver candles for water filters, filters/V belts for generators and small limit switches/relays for lifts. In such cases, better to opt for limited parts replacement AMC.

### 3. Comprehensive

Under this type, all parts are to be replaced by the service provider. Due care has to be taken to ensure that there is a strict control on duration of the downtime of the machine. Normally, companies would prefer to enter into comprehensive AMC without specifying the minimum downtime. This should not be allowed because this would



give them an unlimited time to supply replacement parts which would entail in big losses.

## III. Essential components of an AMC

Any AMC should necessarily have the following components:

### 1. The names and addresses of both the parties

This should include the binding provision that their legal heirs should also be made responsible for the AMC. In some cases, midway through the AMC period, the company is either sold to another company or company changes its name. Under these circumstances, they may try to absolve their responsibility mentioned in the written contract.

### 2. Duration

The effective date of beginning and expiry should be mentioned.

### 3. Nature of AMC

Whether it covers only the Service or Limited Parts or Comprehensive. In case of part replacements, the AMC should specify what should be done with the old parts which are removed. In most cases, it is advisable not to give old parts to the service provider to avoid their misuse by recycling.

### 4. Exclusions

The services or parts which are not covered under the scope of the AMC should be mentioned. For example, a separate note should be written if the replacement of the Drum in Photocopiers is not covered.

### 5. The number of visits

Every AMC should specify the mandatory number of service visits/breakdown calls to be made. Provision should also be made for additional visits with specific mention of the applicable charges. This would avoid overcharging for additional visits.

### 6. Payment terms

Most AMC providers would try to get their annual payments in advance. This is not advisable because there is no hold on them in case of deficiency of service. Alternatively quarterly payment could be made at the end of each quarter which could give the chance to hold payment for deficiency of services. Some service providers insist on hefty penalties for delayed payments. Hence, such a clause should be deleted from the contract.

### 7. Penalty clause

There should be a penalty clause for delayed response leading to a long duration of non-functionality of the equipment for more than a predetermined period.

### 8. Termination

There should be provision for termination of the contract without assigning specific reason. Such termination should have a pre-specified time period.



### 9. Arbitration

In case of disputes, there should be provision for arbitration. Even after arbitration if further problems arise and should there be any requirement to go to a court of law, then courts located closest to the hospital should be authorised to handle the case. Companies would always try to keep dispute redressal by the courts located near their registered offices. This should not be accepted.

### 10. Signatures

Authorised signatories from both the sides should put their signatures. Sometimes the service providers would pass on blank AMC forms and get signatures from their clients and leave their portion unsigned.

## IV. Specific precautions

### 1. Authorising the right person

For the entire organisation only one person should be authorised to monitor and sign the service reports. This could prevent ignorant persons from signing without verifying whether the requirements have been fulfilled.

This person should maintain an "AMC List" containing all equipment under AMC with columns showing the expiry date, amount due and remarks.

### 2. Periodic visit reports

Each visit by the engineer or representative should be documented by a visit report. A typical visit report should contain date, name of the engineer, nature of work done, list of parts replaced, recommendation and signature of the visiting engineer. Submission of visit reports should be made mandatory for payments.

### 3. Communications of the faults

The written protocol should specify the procedure to be followed whenever a fault is detected. It is advis-



able to send written complaint when faults are detected.

#### 4. Fine print

Due care has to be taken to read the fine print submitted as part of the AMC forms. Many service providers submit a printed form which has lot of paragraphs in small print. For example, one paragraph of an AMC form reads like this: "If there is no communication from the Customer before three months of the expiry of the Contract, the AMC is deemed to have been renewed for another one year." So if prior notice is not given three months before expiry of the AMC, it would be difficult to come out of the deal.

#### 5. Check on type of personnel deputed

Any person visiting to implement the AMC should be qualified and knowledgeable about the machine/equipment being serviced. Sometimes companies send some "Trainees" or "Freshers" who would actually not be of any use. Some of them may even spoil the equipment rather than fixing it.

#### V. My experiences on AMCs

##### 1. CT scan

The AMC annual charges for service not including parts replacement was Rs 2,25,000/-. The company when contacted said that their visit charges would be Rs 25,000/- per visit. We converted the AMC to visit-basis. Throughout the year we needed to call the engineer only twice. Therefore we spent only Rs 50,000 and this resulted in a saving of Rs 1,75,000/-. However, such risks should be taken only after careful evaluation of the age and reliability of the equipment.

##### 2. Water filters

In most places water filters will be non-functional and would be giving out more dirty water than the water at the source. The reason is that these water filters require frequent servicing

and replacement of certain parts periodically. The prefilter candle has to be replaced once in a year and activated carbon granules have to be replaced every six months. This is a typical case where AMCs could be of help. We have given AMC to the authorised representative who comes twice a year and does the needed replacement and servicing.

#### 3. Renewal

Every application of AMC renewal should be accompanied with service report for the previous AMC period. Sometimes, companies come to the hospital only for renewal of AMCs and forget to render the promised service. Hence, it would be beneficial to maintain a list of AMCs showing validity period along with due dates for visits. This list should be reviewed periodically for strict compliance from each service provider.

#### VI. Conclusion

Benjamin Franklin said, "A penny saved is a penny earned." That was more than three centuries ago. In today's dynamic business and financial environment, "A penny saved is more than a penny earned" considering factors like Opportunity Cost, Depreciation and Interest. Hence, we can conclude without an iota of doubt that a well-managed AMC could save a lot of valuable cash. Therefore, it is imperative that all possible efforts are to be taken to ensure that AMCs are managed to the fullest advantage of each organisation.

**Mr Stephen Victor**  
Chief Maintenance Officer  
CMC, Ludhiana, Punjab 141 008  
E-mail: stephenvictor@hotmail.com

**Note:**  
If member hospitals need further assistance in AMC & equipment maintenance, support visits can be organised. For details please write to:  
[justinjebakumar@cmai.org](mailto:justinjebakumar@cmai.org)

#### Forthcoming publications



- ❖ Laws on Hospital Administration
- ❖ Job description manual for Hospitals - revised edition

## Clipboard

A CMAI publication focussing on issues related to hospital administration



Christian Medical Association of India

#### Published by

The General Secretary  
CMAI, Plot no. 2, A-3 Local Shopping Centre, Janakpuri New Delhi 110 058  
Tel: (011) 2559 9991/2/3  
E-mail: [cmai@cmai.org](mailto:cmai@cmai.org); [cmaidel@vsnl.com](mailto:cmaidel@vsnl.com)  
Website: [www.cmai.org](http://www.cmai.org)

#### CMAI Bangalore Office

HVS Court, 3rd Floor  
21 Cunningham Road  
Bangalore 560 052  
Tel: (080) 2220 5464, 2220 5837  
E-mail: [cmaibr@vsnl.com](mailto:cmaibr@vsnl.com)

#### Editorial Committee

- Dr Vijay Aruldas
- Mr Jeyakumar Daniel
- Mr Innocent Xess
- Sr Vijaya
- Mr Samuel NJ David
- Mr Edward David
- Dr CAK Yesudian
- Ms Reena Mathai Luke

#### Editor

Mr Justin Jebakumar

Editing, Design & Coordination  
Communications Department

Printer: Impulsive Creations



# Clipboard



A Quarterly Update on Management Issues from the Administrators Section of the Christian Medical Association of India

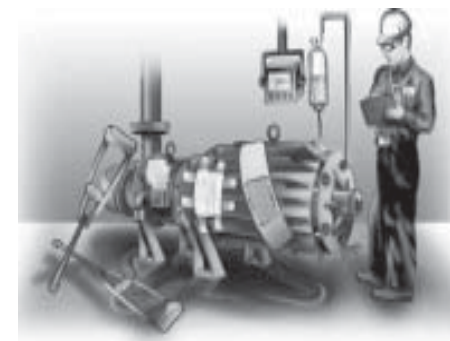
## Dear Members,

Cost management and cost cutting are two key words used by managements to control expenditures. In reality, costs are not cut or controlled but the activities are reduced or put on hold. As modern healthcare services heavily rely on technology and equipment, spending money on certain areas such as maintenance of equipment is important for better and quality health outcome.

Let me cite one of the conventional cost-cutting measures adopted in most institutions. Most managers insist that staff/executives travel by train and not by air. The oft-quoted argument is "money is saved" but the management does not realise the actual productive hours lost during train travel, delayed meetings etc. The question is not the mode of travel or the money saved but the outcome and the necessity of the trip.

Maybe what we need is, to look at the issue from another angle. For example, can we avoid the staff travel by mobilising locally available professionals. Is there any better way to control cost?

Most hospital equipment need mandatory maintenance and repair; and the earlier it is done the better, for delaying or avoiding



essential repairs will result in heavy financial loss to the organisation.

This issue includes an article on Annual Maintenance Contract (AMC) based on tried and tested practices in some of our member hospitals. I am sure it will help to introduce better equipment maintenance practices in our institutions. We welcome your suggestions and comments.

With all best wishes

**Justin Jebakumar**  
Associate Secretary  
Administrators Section

## Biblespeak



There is an old Japanese proverb, "Vision without action is a day dream. Action without vision is a nightmare. "Where there is no vision, the people perish" Prov 29: vs18. Helen Keller, who was blind and deaf was asked, "Can there be anything worse than blindness?" She answered, "Oh yes...for the most pathetic person in the world is someone who has sight, but no vision."

A hospital reluctantly introduced annual plans but a year later, they discovered that they had indeed achieved what they set out to achieve halfheartedly. This encouraged them to take up a more ambitious plan the next year and achieved lots more the following year.

Vision is important. What is your vision for your life, your church, or your organisation?

- Heather Payne

Knowing is not enough; we must apply.

Willing is not enough; we must do

- Goethe