



Where is the Profit in Maintenance Really?

By Ralph W. "Pete" Peters

You might ask yourself after hearing about Profit-Centered maintenance, this important question. "Where is the profit in maintenance *really*? For an in house operation trying to keep its head above water, we have a budget that may not cover our needs. However, be able to show a profit no way!

We will see where profit opportunities available for in house maintenance. We also include a number of case studies at <http://www.PRIDE-in-Maintenance.com> for you to download. Now let us look at one example:

- ✓ What if the net profit ratio of an operation is 4 percent?
- ✓ What does a 4% net profit ratio mean in terms of the amount of equivalent sales needed to generate profits?
- ✓ A net profit ratio of 4% requires \$25 of equivalent sales for each \$1 of net profit generated.

Therefore, when we view maintenance in these terms we can readily see that a small savings in maintenance can mean a great deal to the bottom line and to the equivalent pure sales revenue. The maintenance contribution to the bottom line is illustrated below. A savings in maintenance of only \$40,000 translates into the equivalent of an additional \$1,000,000 in sales revenue. Therefore, from a small savings in maintenance, we eliminate the need for the added \$1,000,000 in sales. We will discuss next many more areas such as the value of increased asset uptime, increased net capacity and just-in-time throughput, increased product quality and increased customer service that all contribute to the bottom line and subsequently to profit.

Maintenance as a Profit Center	
Maintenance Savings that Impact Net Profit	Equivalent Sales Required for Generating Net Profit of 5%
\$1	\$25
\$1,000	\$25,000
\$10,000	\$250,000
\$20,000	\$500,000
\$30,000	\$750,000
\$40,000	\$1,000,000
\$80,000	\$2,000,000
\$120,000	\$3,000,000
\$200,000	\$5,000,000

The Maintenance Excellence Institute International

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Investments in maintenance that successfully implement maintenance best practices can achieve results that are comparable to the following:

- 15 to 25% increase in critical capacity constraining equipment uptime
- 20 to 30% increase in maintenance productivity of the craft work force
- 25 to 30% increase in planned maintenance work
- 10 to 25% reduction in emergency repairs
- 20 to 30% reduction in excess and obsolete inventory
- 10 to 20% reduction in maintenance repair costs
-

Other improvements can include:

- Improved product quality
- Improved utilization of equipment operators
- Improved equipment productivity (OEE) and production throughput capacity
- Improved equipment life lower life cycle cost (LCC)
- Improved productivity of the total operation and pure profit

Validated Results: The results listed above can be achieved by maintenance organizations who have committed to continuous maintenance improvement or what terms you such maintenance benchmarking and best practices implementation. Your organization must realize that there were no easy answers and no “quick fixes.” Organizations that have invested in maintenance over the long-term, have realized a tangible return on that investment. Consider what would happen if your numbers were used in the following very basic examples:

- **Maintenance Craft Productivity Increase of 20%**
20% net improvement in craft productivity (craft utilization, craft performance and craft service quality) would be **20 x 40 Craftsmen x \$35,000/year = \$280,000/year**
- **Increased Equipment Uptime of 25%**
25% downtime reduced from 8% to 6% – value of increased uptime would .25 x baseline \$800,000 value of downtime = \$200,000/year
- **Inventory Reduction in Maintenance Storeroom of 25%**
25% reduction from \$1,000,000 to \$800,000 would be \$200,000 x .30 inventory carrying costs = \$60,000/year
- **Improved Pricing From Suppliers of 1%**
1% direct price saving (not high cost of low bid buying would be .01 x \$1,000,000 purchase volume/year = \$10,000/year
- **Reduction In net Maintenance Repair Costs of 10%**
10% would be .10 x \$750,000 annual repair cost = \$75,000/year if all required maintenance requirement were being met
- **Improved Product Quality of 1%**
1% reduction through equipment related scrap, re-work returns, waste, and better yields would be .01 x \$2,000,000 value of production standard cost = \$20,000/year

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- **Improved Equipment Life of one-half year**
1/2 year longer productive asset life would be .5 year x \$10 million capital investment x .10 expected capital ROI = \$500,000 minus additional \$200,000 additional maintenance cost = \$300,000/year

Develop a Partnership for Profit with Operations: These examples all contribute to the bottom-line either directly or indirectly. They illustrate briefly that tangible ROI can be significant, depending on the size of the maintenance operation and the type of organization. Maintenance leaders must be able to gain support for continuous maintenance improvement by developing valid economic justifications. Take the time to evaluate the potential savings and benefits that are possible within your own organization. Gain valuable support and develop a partnership for profit with operations. Include all other key departments who will receive benefits from improved maintenance. The application of today's best maintenance practices will provide the opportunity for maintenance to contribute directly to the bottom line. However, the pursuit of maintenance excellence requires leadership.

Core Requirement vs. Core Competencies for Maintenance: The core requirement for good maintenance never ever goes away because "Maintenance is Forever"! There will always be a need to maintain. Maintenance of our physical bodies, minds, souls, cars, computers and all physical assets providing products or services will always be required. Maintenance, gravity, extinction and change are truly forever. Yet some organizations today have neglected maintaining their core competencies in maintenance to the point that they have lost complete control. The core requirement for good maintenance will always remains (forever) but the core competency to do good maintenance can be missing. In some cases, we know that the best and often only solution is value-added outsourcing. Maintenance is a core requirement for profitable survival and total operations success. If the internal core competency for maintenance is not present, it must be regained with internal leadership of the **Chief Maintenance Officer (CMO)** and true **Maintenance Leaders**. Neglect of the past can be overcome either internally or externally. The core requirement for maintenance can be reduced but it can never go away.

Neglect of Past Can Be Overcome, Start Now: The neglect of the past will be overcome externally with a growing number of profit and customer-centered maintenance providers that clearly understand providing value added maintenance service at a profit. It will also be overcome internally by a growing number of internal **CMO's**. A new breed in a C-position that leads maintenance forward to profitability as if they owned the internal maintenance business. The new millennium strategy for maintenance excellence will be an effective **CMO** leading the physical asset management process with Maintenance leaders with attitudes and actions toward profit and customer-centered maintenance.

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