

A Pygmy's Journey

How to reduce equipment costs without cutting maintenance

PART 2 OF 2

By Preston Ingalls

In part one of this article, we shared a primer on cost containment and looked at reducing the cost of maintenance without losing the level of maintenance. Methods of comparison were addressed. As we continue the journey to find the true measure of a Pygmy, we'll look at two simple ratios to make the case for fleet costs.

IT'S ALL RELATIVE FOR PYGMIES AND FLEET COSTS

For our fleet costs case, let's use two simple ratios. The first, Cost Ratio One (CR1) is called Maintenance Cost as a Percent of Estimated Asset Value, or Fleet Replacement Value (FRV). The denominator will be the costs to replace our entire fleet at today's prices with comparable rates.

In other words, if something happened to your entire fleet, what would it cost you to replace it with like-kind replacements rather than brand new equipment? After all, if something happened to your entire fleet, the insurance company probably won't be so generous as to say "Go buy all new replacements." They would want you to replace with similarly aged and holed equipment to be fair, which makes sense.

So the FRV is the combined residual values of all the equipment. Maybe you already had it as the "insured value" or capital value (collateral) for securing money from the bank.

Now that we know the FRV, calculate the total costs for maintenance activities. This would include:

- All maintenance labor
- Contractor costs
- Parts and materials
- Any overhead burden (shop costs, utilities, management and support staff)

It would not include:

- Fuel (as a production consumable it's not a cost to maintain)
- Depreciation (a tax burden on a fleet but not a maintenance cost)

ABOUT THE AUTHOR

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THE TRUE MEASURE OF A PYGMY

We are looking for the "cost to maintain" versus the entire cost to have the fleet. It's like asking the jungle inhabitant to remove his shoes to get a true height.

He may argue that the shoes are a part of him and his height should account for that, but he needs to be reminded we want to compare apples to apples or "tootsies to tootsies." After all, a pair of sandals has a different elevation than a pair of boots. That analogy correlates to the fact that while a vehicle's depreciation burden is indeed an obligation, it is only remotely connected to the "cost to maintain."

After we divide the Maintenance Cost (MC) by the Fleet Replacement Value (FRV), we get a ratio that lets us compare our organization's fleet maintenance costs to others. Let's say our Annual Maintenance Costs are \$7.5 million and our FRV is \$45 million, then:

$CR1 = MC/FRV$ then CR1 is $\$7.5 \text{ mill}/\$45 \text{ mill} = 16.6$ percent

Now compare that to the Industry Average of 15 percent, which means you are close to construction industry averages. However, the Best in Class (in the industry) is 4 to 5 percent, so you are spending about three times as much as Best-in-Class operations. If you think 4 to 5 percent is low, bear in mind that World Class (across all industries) is 2.5 to 3 percent.

The second ratio, which we will call Cost Ratio 2 (CR2), will be comparing our Maintenance Costs (MC) to our Annual Revenue (AR), or total sales. We now know what our

Maintenance Costs are and total sales or Annual Revenue is \$125 million, then:

$CR2 = MC/AR$ then CR2 is $\$7.5 \text{ mill}/\$125 \text{ mill} = 6$ percent

If we compare CR2 to the Industry Average of 11 percent, we see we are almost half, but Best-in-Class in the industry is 1.5 to 2 percent. Once again, it looks like we are three times of Best-in-Class. Both CR1 and CR2 show we are spending way too much on maintaining our fleet compared to others and especially operations that have really refined their maintenance practices.

STANDING TALL BY CUTTING COSTS

Our Pygmy now has a broader appreciation of his height compared to others, but are there any ways to change it? He now knows that there are communities that he and his tribe might not do as well against in a basketball game.

Unlike the Pygmy example where height is predestined, we can reduce costs with a robust maintenance improvement program. Two successful processes that have been around for many years are called Total Productive Maintenance (TPM) and Total Process Reliability (TPR). Both are extremely similar to each other and focus on practices to improve uptime while reducing costs.

Our little buddy may choose to ignore any efforts to improve his height by blaming it on genetics. Then again, he may choose to learn what is different about these other tribes that allow them to grow taller folks. Yeah, right! ■

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