

CUTTING FLEET COSTS THROUGH BENCHMARKING

By Preston Ingalls



How do you know how well your fleet is doing relative to others? Are you spending too much ... too little? Is your fleet completing a similar level of activity with others in the industry? How does your fleet compare to the very best in your industry? Knowing how we are doing against others helps drive us to improve; otherwise, we become complacent in our activities. Benchmarking allows us to “calibrate” our practices, processes, and cost of performing those activities.

DEFINITION OF BENCHMARKING

Wikipedia defines benchmarking as, “The process of comparing one’s business processes and performance metrics to industry bests or best practices from other industries. Dimensions typically measured are: quality, time, and cost. In the process of benchmarking, management identifies

the best firms in their industry, or in another industry where similar processes exist, and compare the results and processes of those studied (the “targets”) to one’s own results and processes. In this way, they learn how well the targets perform and, more importantly, the business processes that explain why these firms are successful.

Benchmarking is used to measure performance using a specific indicator (cost per unit of measure, productivity per unit of measure, cycle time of x per unit of measure, or defects per unit of measure) resulting in a metric of performance that is then compared to others.

Also referred to as “best practice benchmarking” or “process benchmarking,” this process is used in management and particularly strategic management, in which organizations evaluate various aspects of their

processes in relation to best practice companies’ processes, usually within a peer group defined for the purposes of comparison. This then allows organizations to develop plans on how to make improvements or adapt specific best practices, usually with the aim of increasing some aspect of performance. Benchmarking may be a one-off event, but is often treated as a continuous process in which organizations continually seek to improve their practices.”

BENCHMARKING PROGRAM

An ongoing benchmarking program pushes organizations outside of their comfort zones and provides precise and measurable short-term improvement plans based on current actuality rather than past performance. Benchmarking also gives us a comparative point of relativity of our efforts, activities, and

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results so that we can push for change to close the gaps between us and them.

The problem is organizations establish goals based on past trends and patterns and are therefore restrictive to a myopic view of capabilities. Benchmarking helps remove the inability to create a new vision or direction. It forces the organization to take a renewed "out-of-the-box approach" to goal setting based on a broader perspective. By seeing what similar companies have accomplished, it can reenergize efforts to improve practices and reduce costs. The adage says, "If you want to become great—you study the great."

METRIC EFFECTIVENESS

When examining others' numbers or measures, my advice is don't discount someone else's success. Many times, I have heard an employee at one of my clients attempt to downplay others' progress by saying, "Well, sure they can do that. They are bigger than us ... or they don't have the weather restrictions we do ... or we have an older workforce. Or yeah—but their wages must be higher."

A major restriction of benchmarking is that while it helps organizations show the efficiency of their measures, it does not always show the overall effectiveness of such metrics. Benchmarking reveals the performance and cost measures attained by others, but does not consider the circumstances under which they achieved such results. Improving the measures means improving the practices that caused those measures.

Another disadvantage of benchmarking is the risk of complacency and overconfidence. Many organizations tend to relax after excelling beyond others, allowing arrogance to develop. "We don't need to work on that. We already do it better than most." The realization of having become the industry leader soon leads to a level of smugness and unwillingness to challenge ourselves. *Best becomes the enemy of Better.*

Finally, many organizations make the mistake of undertaking benchmarking as a standalone activity. Benchmarking is only a means to an end, and it is useless if not complemented by a plan to change.

Despite the downsides of benchmarking, the upsides are far more impressive.

The five recommended steps to benchmarking include:

- Determine what to benchmark
- Form a team
- Identify partners
- Collect and analyze data
- Implement and monitor results

Below is a link that explains the steps in more detail: www.tutorialspoint.com/management_concepts/benchmarking_process.htm.

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In summary, understanding where your fleet is relative to where it could and should be could mean direct contributions to the bottom line ... even more important today with increased competition. ■



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THE ANALYSIS OF BENCHMARKING

PART 2

By Preston Ingalls





Industry



Best in Class



World Class

Last month, the article on benchmarking reviewed its definition and the importance to business operations. This article will highlight the metrics of the process as it compares actual numbers.

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	Industry	Best in Class	World Class
Maint. Cost % FRV			
FRV > \$25 million	15%	4%	<2.5%
FRV \$1.1 - \$25 million	14%		
FRV <\$1 million	12%		
Maint. Cost % of Revenue			
FRV > \$25 million	11%	1.5%	<3.0%
FRV \$1.1 - \$25 million	8%		
FRV <\$1 million	8%		
Maint. Labor % of Revenue			
FRV > \$25 million	2.1%	1%	1.1%
FRV \$1.1 - \$25 million	2%		
FRV <\$1 million	1.8%		
Maintenance Inventory % of FRV			
FRV > \$25 million	2.9%	1.5%	.25%
FRV \$1.1 - \$25 million	1.6%		
FRV <\$1 million	1.1%		
Emergency/Breakdown Hrs			
FRV > \$25 million	31%	4%	<3%
FRV \$1.1 - \$25 million	22%		
FRV <\$1 million	17%		
Preventive Maint. Hours			
FRV > \$25 million	42%	55%	60-70%
FRV \$1.1 - \$25 million	35%		
FRV <\$1 million	25%		

FRV = Fleet Replacement Value

THE BENCHMARKING PROCESS

The process of benchmarking includes five recommended steps: (1) determine what to benchmark, (2) form a team, (3) identify partners, (4) collect and

analyze data, and (5) implement and monitor results. Let’s skip the first three steps and focus on step four: collect and analyze data and take a closer look at the chart provided.

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To facilitate the process, we are providing the numbers that were recently updated to help you compare your costs and performance practices to those in your industry, those Best in Class in your industry, and those in the World Class across all industries. This means leading and lagging indicators. Leading indicators are used to predict changes before they occur, while lagging indicators measure changes after they've occurred.

Most of the costs measures shown are against Fleet Replacement Value (FRV). In other words, what would it cost, at today's prices, to replace your fleet? This may be the insured value or market value, but it is not the depreciated value. The column to the far left is the Key Performance Indicator (KPI) showing the variances in different fleet values. The next column to the right of that is the industry numbers (by size of fleet value). The numbers to the right of that column are the Best in Class within the industry (heavy construction and mining). The far right column has the World Class numbers across all industries. Maintenance costs include all maintenance costs except depreciation and fuel. This includes: labor, all parts and materials, lubrication, grease, shop operating costs (utilities and building costs). It would consist of all maintenance leadership and support costs as well.

AN EXAMPLE

For example, maintenance costs for Alpha Beta Construction are \$6.2 million annually for a fleet of 435 pieces of rolling stock (on-road and off-road). Their fleet is valued at \$73 million. So their costs as a percent of FRV are 8.5 percent compared to the Industry number of 15 percent. They are below the Industry Average. However, if we compare them to the Best in their Industry at 4 percent, they are double and almost 3.5 times that of the World Class number. This means, an aggressive maintenance improvement effort could bring that spending in under \$3 million per year with a net of \$3 million to the bottom line. Is it worth it?

So, there are some savings opportunities here by improving their maintenance practices. Now, let's examine their other numbers and we may see why their costs are so high. Their PM percentage (total maintenance hours) is only 9 percent compared to 42 percent in the Industry Average and 55 percent against Best in Class. Their Emergency

percentage is 62 percent compared to the Industry Average of 31 percent and Best in Class of 4 percent. A highly reactive maintenance process with low levels of PM and a large valued fleet means higher costs to the organization. Therefore, there is an opportunity at Alpha Beta Construction to implement a robust PM program involving not only

the mechanics/techs, but vendors and operators.

By comparing and knowing the numbers, a company can benchmark how they are doing against others help drive them to improve. Benchmarking allows for "calibration" of practices, processes, and cost of performing those activities. ■



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