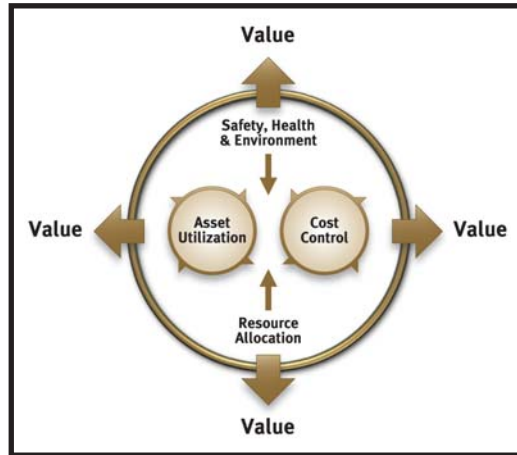


Creating shareholder value with maintenance



"What is actually the added value of maintenance?" is a frequently heard question in boardrooms the world over. Mark Haarman, and Joost Boutkan**, attempt to give an answer.*



Even though maintenance is often critically important, few maintenance managers are able to answer the question convincingly. For this reason Mainnovation developed the Value Driven Maintenance® methodology. VDM builds a bridge between traditional maintenance philosophies and managing by shareholder value.

Before you can manage by shareholder value, you have to understand what exactly value is. Value is defined as the sum of all future free cash flows, discounted to today. This sounds impressive, but what precisely does it mean? A cash flow is the difference between income and expenditure. This is not the same as the difference between revenues and costs, because that's an item that can be greatly influenced by accounting practices.

The second part of the definition stems from the knowledge that the value of a cash flow is related to time. One euro is worth more today than one euro next year, because you can deposit a euro at the bank today and use it to generate income over a period of one year. Therefore, we have to adjust future cash flows.

A maintenance manager is likely to say, "This theoretical approach is all very well, but what good is it to me in practice? The value of maintenance comes from delivering maximum availability at minimum cost. You have to prioritise: do you want to reduce costs or increase uptime? VDM provides answers by identifying the value potential of the four value drivers in maintenance and enabling you to manage by those drivers.


Today's maintenance managers are constantly balancing between higher machine availability (asset utilisation) and lower maintenance costs (cost control). In doing so, they must take into account the growing body of laws and regulations

covering safety, health and environment. To make everything work, they need to use the right technicians, spare parts, knowledge and contractors (resource allocation).

For all four value drivers, maintenance can help to increase a company's economic value. In a market where there is more demand than supply, greater machine availability results in more products, more income and thus higher value. On the other hand, lower maintenance costs produce higher value by avoiding expenditure. The same applies to resource allocation. One example is a technical storeroom. Smarter inventory management of spare parts can enormously increase value for a company. Damage caused to personnel, environment and image will also increase expenditure. An even greater danger is loss of the licence to operate, because of inability to comply with SHE legislation. No licence to operate means no production and no income.

Maintenance managers must show where there is potential for value within their maintenance organisation. VDM provides calculation models and tools for this purpose. Note that the result of the calculation of value will differ markedly, depending on the industry involved. In the bulk chemical industry, for example, there is currently less demand than supply and worldwide prices are under considerable pressure. The value potential here lies mainly in controlling costs and the smarter deployment of people and resources. In the pharmaceutical industry, the situation is the other way round.

Now that we know the important competences, the next step is to organise and control them in the right way. For this purpose VDM puts forward best practices from leading maintenance organisations. Total Productive Maintenance (TPM) thus enjoys a reputation mainly as the best practice for registering, analysing and improving production losses (asset utilisation) in discrete production. In contrast, Asset Based Costing (ABC) is a proven best practice for properly controlling maintenance costs. Using these best practices, a technical department can quickly become a professional maintenance organisation that adds value to the overall business performance. In VDM terminology, this is called the Most Valuable Maintenance Organisation (MVMO).

Managing by value is not just a must, it is the only way to discover the true significance of maintenance. VDM makes maintenance more than a cost centre, because it contributes in various ways to a company's economic prosperity. 

*Managing Director and

**Senior Consultant, Mainnovation, The Netherlands.