Bridging Communication with Finance:

Introduction:

There was always one thing that used to send me over the deep end when working as a Maintenance Planner: being asked by the Finance Department to do more with less. Has your boss asked you the very same question? Chances are you did not enter into your position as Maintenance Manager or Planner to be a juggler. Yet the trend in today's economy for an organization to reduce costs means you are forced to do just that with your budget.

Do More With Less:

Part of this trend of doing more with less is to treat maintenance as a cost function. When viewed as such, it becomes a simple exercise to arbitrarily cut maintenance budgets and resources. Without data to say otherwise, Finance will allocate funds for Maintenance based on this notion.

In an attempt to justify its costs the Maintenance Group will try to explain the technical reasons why equipment failed. The technical information is useful internally to the Maintenance Group. When communicating with Finance, a vocabulary switch is in order. The ability to communicate to Finance with an understanding of the financial buzz words can put you in the driver's seat.

Maintenance is an Investment:

Finance understands costing information. When an equipment failure occurs, the Maintenance Group must determine the appropriate maintenance action that will prevent the failure from occurring in the future. In addition, the Maintenance Group must communicate the merits of the maintenance action. To do this first establish the cost of the maintenance action. Then, compare that cost to the cost of taking no action. A sound strategy to measure maintenance as an investment is to calculate:

- Lost production cost
- Costs required to make up lost production
- Quality costs, particularly rework and scrap energy costs
- Customer dissatisfaction costs
- Delayed delivery penalties
- Lost customer costs
- Environmental penalty costs
- Safety penalty costs
- Devaluation of capital assets

When the Maintenance Group can effectively communicate the total cost impact of maintenance to Finance, the perception that maintenance is a cost function will no longer be valid.

Maintenance and Finance are both striving to achieve the same result: improving the financial profitability of the organization. The time has come for Finance and Maintenance to start speaking the same language. The common goal for both groups is revealed when **maintenance is viewed as an investment**.

Make Your Finance Department Your Biggest Booster:

Managing maintenance protects the investment of an organization's capital assets. In basic terms, it buys insurance protection. Terry Wireman, in his book "Developing Performance Indicators for Managing Maintenance" has defined maintenance management as, "The management of all assets owned by a company, based on maximizing the return on investment in the asset."[1]

Just as a sound Financial Planner promotes diversification as an investment strategy, so too should the Maintenance Manager. The diversification strategy used in maintenance is a properly planned maintenance program. The program will include:

- Preventative Maintenance
- Stores Management and Procurement
- Work Order System
- Computerized Maintenance Management System
- Technical and Interpersonal Training
- Operational Involvement
- Predictive Maintenance
- Reliability Centered Maintenance
- Total Productive Maintenance
- Statistical Financial Optimization
- Continuous Improvement

Control your maintenance costs with a little outside the box thinking. To make appropriate investment decisions, data must be available. The available data must be relevant. The data also needs to be organized in such a way that it has meaning.

A company will often announce as an objective that it wants to reduce MRO inventory by 10%. Cuts are then made arbitrarily. After the cuts are made, downtime due to stock outs increases. The cost of lost production may outweigh the cost savings from the reduction in spare parts.

Maintenance has an opportunity to demonstrate how best to achieve the desired cost savings. By carefully categorizing MRO parts, slow moving critical spares can be stocked by priority. This requires diligent analysis of the spare parts catalogue. Perhaps the part is made in Europe. The lead time on delivery warrants stocking it as it is critical to production. Stocking a critical spare is an investment. A presentation to Finance, using financial buzz words that demonstrate the dollar savings realized by stocking the item, is an effective means of communication. Alternatively, should the analysis show the asset to rarely break down in a fashion that requires the part to be replaced, then is stocking the item truly necessary. Perhaps an arrangement can be made with the vendor to provide quick delivery time.

[1] Wireman, Terry; "Developing Performance Indicators for Managing Maintenance" Industrial Press, New York, 1998, page 1.

Planned downtime can be more cost effective than unplanned downtime. There is no question that downtime of equipment takes time away from production. However, not giving the equipment over to the Maintenance Group for regularly scheduled preventative maintenance (PM) increases the likelihood of unplanned downtime which:

- Takes longer to correct than the original PM hours that were required.
- Probably costs more due to lack of preparation and the probability of overtime.
- Could include costs of a lost customer or attempting to satisfy a customer.

In order to be heard, the Maintenance Group **MUST** do a more effective job of communicating its needs. First, translate the requirements for planned downtime hours into straight labour and material costs. Then, calculate the value of the return on investment for those planned downtime hours. Communicating with Finance in this fashion, effectively informs Finance the importance of PM. Studies show that maintenance makes up anywhere between 15 – 40% of total production or facilities costs. Calculating this out, the contribution to a company's profits from a dollar saved through a properly planned maintenance program is potentially quite large.

Compare that contribution to the challenges of generating new sales and one begins to realize the full impact maintenance has on a company's profitability. Communicating in these terms will no doubt grab the attention of a Finance Department.