

Beware of phantom savings

There are real cost savings and there are phantom savings. Real cost savings flow to the accounting system and appear on the books. Phantom savings appear on reports and never can be tracked to the accounting books.

Some examples of Real savings (not all real savings appear on maintenance budget)

- Reductions in payroll (personnel)
- Non-replacement of personnel because we don't need them
- Reduction to overtime
- Reduction to billing from contractors
- Reductions to material used
- Reductions to inventory on shelf
- Reduced expenditures for tools and equipment
- Reduced equipment rental bills
- Reduced demurrage (rental of tanks, rail cars, ships)
- Reduction to regulatory fines
- Closing a satellite operation and reduction of overhead
- Reduction of energy usage (large enough to be read)
- Reduced raw material usage
- Reduced number of production machines due to increased uptime
- Reduced operator personnel needed

Phantom savings

- Reduction of labor without realizing any savings
- Small reductions to energy usage
- Small reduction to production machine usage
- Reduced compressor usage due to leaks being fixed (unless you can prove electricity savings)

For example let's consider a PM that takes 3 hours a month and does not use materials. We decide the PM is too frequent and we reduce the frequency from monthly to quarterly. And let's agree there was no increase in breakdowns or adverse events. Calculations show we "saved" 24 hours a year. Where did the savings go? We say that the time is now available for other valuable maintenance activity. This is phantom savings.

If we sent home a contractor 3 days a year as a result of this PM frequency improvement then the phantom savings would be realized (translated into real savings). If we could decrease overtime then the savings would be realized. Or if the PM used a \$25 belt each month and we dropped the usage from 12 to 4 a year we could show real savings of \$200.

We act as if the real and phantom savings are the same. They are not the same and should be presented separately. Hard numbers people are extremely suspicious of phantom savings. In the real world they never realize those savings. Phantom savings are nice to have but not like money in the bank.

This is not to say that phantom savings are not important, they are. Phantom savings can really be used for important work it's just that the Return on Investment will show up as a result of the

work we actually do and not from the savings activity. It's also a guide or a pointer to real savings.

The situation of phantom savings could very well be worse than just no savings shows up on the books. Consider the impact of a major effort toward planning and scheduling the maintenance effort. Conservative estimates show productivity could improve by 25%.

Now most places don't implement Planning and scheduling and then layoff 25% of their people. Most places have excessive identified work (backlog) and use the gain in productivity to accelerate the speed with which they work their way through the backlogged jobs.

Each job takes a shorter time (on the time clock). Materials, tools, permissions, drawings are available when the job starts. More jobs run smoothly. Without a layoff or reduction to overtime there are no savings in maintenance costs. To make matters worse those additional jobs will consume materials. The uptick in material usage will be real (not phantom). Improving productivity might adversely impact the maintenance materials budget.

Usually there are additional jobs added that didn't make it to backlog originally because no one had confidence that the job would ever get done (it seems particularly infrastructure jobs). Eventually when the backlog is reduced to a manageable level the whole plant will run better. Fewer corrective jobs will breakdown waiting for maintenance to get there.

Thanks for reading- Joel

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