

Manufacturers find that greasing the bottom line works

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Exerts from the May 4, 2006 Issue of ReliablePlant Mail.

Every manager knows that manufacturing and processing plants require lubricants to keep the machinery humming. But how much? How often? And what kind?

Knowing the answers to those three questions may make a significant difference to your profit statement. Perhaps millions.

Drew Troyer, senior editor of [Machinery Lubrication](#), says that a company's lubrication program has a direct impact on its bottom line, including share price and market capitalization. Asked for an example, he offers the case of Baltimore Gas & Electric, which made improvements in its lubrication program that led to a \$6.9 million boost to the utility's bottom line.

Klaus Blache, director of manufacturing engineering for General Motor's Lansing, Michigan plant, agrees. Blache, during his tenure as chairman of the Society of Maintenance and Reliability Professionals (SMRP), oversaw a study that measured potential savings. The study showed that companies employing lubrication best practices spend only about 4.4 percent of sales to maintain equipment while the average of all companies is about 5.9 percent.

That is a 1.5 percent difference between having a sound, proactive lubrication program and being simply average.

Troyer offers an illustration of the impact this would have in language that any CEO – or investment banker – would appreciate.

"Let's say your company has annual sales of one billion dollars. Your earnings before interest and tax are \$60 million and you have 25 million shares outstanding. That results in earnings per share (EPS) of \$2.40. Assuming a typical P/E ratio, the company's stock would trade at \$30 per share. Improving from average performance in maintenance to world-class would increase earnings per share from \$2.40 to \$3.00. Assuming a constant P/E ratio of 12.5, one could argue that the share price would trade at \$38 per share - an increase of \$8 per share, or 27 percent," he notes.

Troyer adds the point that if maintenance costs are reduced through well-engineered programs and not arbitrary cutbacks, reliability will improve throughput and quality, which should further bolster stock price. Likewise, it is well known that the most profitable players in an industry are rewarded with higher P/E ratios.

While the relationship between lubrication and stock price seems obvious to Troyer, he is concerned that this relationship has not been adequately presented or understood by CEOs or VPs of manufacturing. And he aims to change that. Troyer beats his drum on the strategic importance of lubrication programs.

"Improvements in lubrication practices have a direct effect of lessening the failure rate of equipment. That means less downtime and less need to replace capital equipment," he notes. "Given that 30 to 50 percent of mechanical failures are in some way tied to poor lubrication, it should be the first target of a maintenance improvement plan."

Perhaps it's easier to understand the importance of lubrication when you begin to look at it as a forensic study, like the characters in the television show CSI. Used lubricants carry messages about a machine's health. In that sense, oil analysis can be thought of as a sort of blood test. In the right hands, a proper oil analysis will yield data that determines if anything is about to go wrong and what response to take. Having this data and interpreting it correctly can reduce wasteful work orders and unscheduled downtime.

So how does one create a lubrication strategy that reflects best practices?

Jim Fitch, editor of [Practicing Oil Analysis](#), says that success lies in changing both corporate and plant management attitudes about lubrication, coupled with the proper education.

According to Fitch, more than 80 percent of equipment wear and failures could be avoided through proper training, tools, and support to maintenance staff relating to lubrication and oil analysis. Addressing this shortcoming could significantly increase production.

He would like managers to transform ritual lubrication practices into modern "best practices" programs, the benefits of which must be communicated across the company, similar to corporate communications strategies for safety and product quality.

"What if manufacturing plants announced exciting, company-wide goals surrounding lubrication, oil analysis and proactive maintenance?" Fitch asks excitedly. "Wouldn't it be great if they could track the savings and the increased productivity and reward the organization for the success? Imagine the pride in being part of such quality and accomplishment!"

"For an increasing number of companies, the active role of management in transforming average lubrication programs to world-class stature has been met with extraordinary success. Managers who have 'seen the light' have garnered the critical resources to finance the transformation and generated enthusiasm for these programs. Sadly, these successful organizations represent a small minority of the opportunity. However, their success provides other managers the confidence to plunge into radical reform to overhaul their lubrication program and achieve lubrication excellence."

It's an uphill battle, but one that both Troyer and Fitch believe is worth it. Which is why both agree that perhaps it's time to put aside talk of teamwork and technical rationale for implementing best practices in lubrication. Rather, it's time to talk turkey with the CEO, COO and finance managers.

Troyer and Fitch both agree on what that message should be: that savings from avoiding maintenance costs go directly to the bottom line as profit - there is no cost of goods sold (COGS). In addition, when maintenance cost reductions are engineered, and not of the slash and burn variety, higher throughput and improved quality are typically enjoyed. This enables the plant to make money both coming and going through improved maintenance.

And what CEO could ignore that message?