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About four years ago, Tom Bond and I began developing a series of expositions around the advantages and methods for operating the maintenance function as a profit center instead of the typical cost center. There were many comments on the concept. One individual stated that his corporate management would never accept the idea of maintenance as a profit center—everyone knew it was and had to remain a cost center.

That was then and now is now. Today we're seeing papers and entire conferences promoting maintenance and, more broadly, asset management as profit-centered activities. Looks like we were just early predictors of a trend. As more attention turns toward profit-centered operation it might be instructive to examine the differences between profit and cost centers. More important, consider the benefits of moving functions traditionally considered cost centers into the realm of profit centers.

Stated simply, a cost center is concerned solely with controlling adherence to a budget. In corporate terms a cost center is charged with managing compliance to an operating cost budget that resides below the gross profit line on an income statement. Balancing your checkbook is managing a cost center. A profit center adds requirements for managing income from sales and cost of goods sold (CGS), called gross profit or gross margin. Those who have been privileged to manage both will agree that managing sales, sales income, and cost of goods sold, above the gross profit line, is considerably more difficult than managing expenses.

I maintain that instead of encouraging efficiency and optimization, the very nature of a cost center contains structural disincentives that work against optimization. Everyone recognizes, and many have experienced, the cost center rewards for working hard to control costs and ending the year well under budget. The amount under budget is added to the planned reduction and the result becomes next year's objective. That's the reason there is so much last-minute spending, wise or not, in a cost center. The reward works against optimizing, doing exceptionally well, and ending up significantly under budget.

There is another deficiency in a cost center structure. If you are restricted to managing budgets, why spend money on improvements or opportunities that may have a large impact on profitability at an increase in expenses? A cost center is not a charity.

Since profit is the measure of success in a profit center, investment and even adding operating costs can be allocated to improve efficiency and take advantage of unexpected opportunities to sell more and/or higher quality products. In a profit center, managers have the authority to reallocate existing resources as well as expend additional resources with

corresponding accountability for results. A profit center not only makes it possible to justify the expenditure of additional resources in maintenance and operating costs to gain a return at the bottom line but encourages that type of activity.

Managers with whom I have spoken, especially those entering the brave new world of combined operations and maintenance responsibility, are, by experience, typically cost-center oriented. Most like the idea of a profit center, especially the flexibility to shift resources and make investments to gain added value. They are closest to the “big picture” and see the opportunities for agility and flexibility to take advantage of opportunities as both exciting and challenging. I’ve not spoken to a single person unwilling to accept accountability for profit-oriented decisions—provided the authority and rewards for added value are present as well.

Cost center management is really micro management. Cost center managers are restricted. A cost center eliminates any initiative to optimize and, as stated earlier, works against optimization. Profit center management moves in the other direction. Improvements, agility to meet unexpected opportunities, and creating maximum value are all encouraged and rewarded. Some companies are going in this direction. Although they might not be calling their evolving style profit-centered management, the concept, scope of authority, and accountability are identical.

Call the change whatever you like, but choose the direction that leads to optimization. It’s not the stifling atmosphere of a cost center that actively discourages innovation and optimization but rather a profit center mentality that demands innovation and value creation. **MT**