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# Performance measurement using overall equipment effectiveness (OEE): Literature review and practical application discussion

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**Performance measurement using overall equipment effectiveness (OEE): Literature review and practical application discussion**

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**Abstract**

The quest for improving productivity in the current global competitive environment has led to a need for rigorously defined performance measurement systems for manufacturing processes. In this paper, OEE is described as such kind of performance measurement tool that measures different types of production losses and indicates areas of process improvement. Analysis is done on how OEE has evolved leading to other tools like TEEP, PEE, OFE, OPE and OAE. Two industrial examples of OEE application are discussed and the differences between theory and practice analysed. Finally, a framework for classifying and measuring production losses for overall production effectiveness is proposed. The framework harmonises the differences between theory and practice and makes possible the presentation of overall production /asset effectiveness (OAE) that can be customized with the manufacturers needs to improve productivity.

**Keywords:** Performance Measurement, Overall Equipment Effectiveness, , Manufacturing

## 1. Introduction

The evolution towards a global economy has expanded the base of competition for virtually all businesses. By the very nature of the word competition, it is implied that someone out there is always keeping score. The tally on the scorecard may be a measure of more sales, increased profit or a growing customer base. Regardless of the criteria of measurement used, to remain competitive, you have to put up more points on the board. In order to beat competition, there is a basic business demand to get better at what is done and at meeting customers' expectation.

As noted by Fleischer *et al* (2006), the competitiveness of manufacturing companies depends on the availability and productivity of their production facilities. Huang *et al* (2003) also states that due to intense global competition, companies are striving to improve and optimize their productivity in order to remain competitive. This would be possible if the production losses are identified and eliminated so that the manufacturers can bring their products to the market at a minimum cost. This situation has led to a need for a rigorously defined performance measurement system that is able to take into account different important elements of productivity in a manufacturing process.

The total productive maintenance (TPM) concept, launched by Nakajima (1988) in the 1980s, provided a quantitative metric called Overall Equipment Effectiveness (OEE) for measuring productivity of individual equipment in a factory. It identifies and measures losses of important aspects of manufacturing

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4 namely availability, performance and quality rate. This supports the  
5  
6 improvement of equipment effectiveness and thereby it's productivity. The OEE  
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8 concept is becoming increasingly popular and has been widely used as a  
9  
10 quantitative tool essential for measurement of productivity especially in the  
11  
12 semiconductor manufacturing operations (Huang *et al*, 2003). Manufacturers in  
13  
14 other industries have also embraced it to improve their asset utilization.  
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21 The industrial application of OEE, as it is today, varies from one industry to  
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23 another. Though the basis of measuring effectiveness is derived from the  
24  
25 original OEE concept, manufacturers have customized OEE to fit their particular  
26  
27 industrial requirements. Furthermore, the term OEE has been modified in  
28  
29 literature to different other terms with regard to the concept of application. This  
30  
31 has led to broadening of OEE to overall factory /plant effectiveness (OFE) /  
32  
33 (OPE), overall throughput effectiveness (OTE), production equipment  
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35 effectiveness (PEE), overall asset effectiveness (OAE) and total equipment  
36  
37 effectiveness performance (TEEP).  
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45 It is the objective of this paper to investigate how the OEE tool has evolved with  
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47 time and how it has been applied to fit the individual needs of the industries.  
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49 Two industrial examples are analysed to show how OEE concept is applied to  
50  
51 enhance productivity in industries and the different types of production losses  
52  
53 measured. To harmonise the different OEE concepts in literature and practice, a  
54  
55 general framework with different categories of production losses has been  
56  
57 developed. This framework gives different categories of losses that are  
58  
59 important in measuring overall production effectiveness. Finally, this paper  
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4 discusses the benefits and challenges of using OEE measurement tool and the  
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6 type of processes where its benefits is significant.  
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## 10 11 **2. The OEE Measurement Tool - Overview** 12 13

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16 OEE measurement tool was developed from the TPM concept launched by  
17  
18 Nakajima (1988). The goal of TPM is to achieve zero breakdown and zero  
19  
20 defects related to equipment. The consequence of reducing breakdowns and  
21  
22 defects is improvement on production rate, reduction in costs, reduction in  
23  
24 inventory and eventually, increase in labour productivity. The TPM concept puts  
25  
26 much attention to production equipments since they have a high influence on  
27  
28 quality, productivity, cost, inventory, safety and health, and production output.  
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30 This is especially true for highly automated processes.  
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38 OEE is defined as a measure of total equipment performance. That is, the  
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40 degree to which the equipment is doing what it is supposed to do (Williamson,  
41  
42 2006). It is a three-part analysis tool for equipment performance based on its  
43  
44 availability, performance, and the quality rate of the output. It is used to identify  
45  
46 for an equipment the related losses for the purpose of improving total asset  
47  
48 performance and reliability. It categorizes major losses or reasons for poor  
49  
50 performance and therefore provides the basis for setting improvement priorities  
51  
52 and beginning of root cause analysis. It can point to hidden capacity in a  
53  
54 manufacturing process and lead to balanced flow. OEE is used to track and  
55  
56 trace improvements or decline in equipment effectiveness over a period of time  
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60 (Bulent *et al*, 2000).

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7 Confusion exist as to whether OEE indeed measures effectiveness (as depicted  
8 by its name) or it is an efficiency measure. In literature (US department of  
9 Energy, 1995), effectiveness is defined as a process characteristic that indicates  
10 the degree to which the process output conforms to the requirements. It tells  
11 whether right things are done. Efficiency on the other hand, is defined as a  
12 process characteristic indicating the degree to which the process produces the  
13 required output at minimum resource cost. It tells whether things are done right.  
14 The three measures (availability rate, performance rate and quality rate)  
15 captured by the OEE tool indicates the degree of conformation to output  
16 requirements. Therefore, indeed the OEE tool is a measure of effectiveness.  
17 This is in agreement with the definition in literature that OEE measures the  
18 degree to which the equipment is doing what it is supposed to do based on  
19 availability, performance and quality rate. (Williamson, 2006).  
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40 The OEE tool is designed to identify losses that reduce the equipment  
41 effectiveness. These losses are activities that absorb resources but create no  
42 value. According to Jonsson and Lesshammar (1999), the losses are due to  
43 manufacturing disturbances that are either chronic or sporadic. Chronic  
44 disturbances are small, hidden and are as a result of several concurrent causes.  
45 Sporadic disturbances on the other hand, are more obvious since they occur  
46 quickly and have large deviations from the normal state. It is a bottom-up  
47 approach where an integrated workforce strives to achieve overall equipment  
48 effectiveness by eliminating six big losses (Nakajima, 1988). The six big losses  
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4 are given below with some examples from a palletizing plant in a brewery as  
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6 analysed by Pintelon *et al* (2000).  
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#### 10 11 Downtime losses

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14 (1) Breakdown losses categorised as time losses and quantity losses caused  
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16 by equipment failure or breakdown. For example, a breakdown of  
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18 palletizing plant motor in a brewery leads to downtime and thus  
19  
20 production loss.  
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22  
23 (2) Set-up and adjustment losses occur when production is changing over  
24  
25 from requirement of one item to another. In brewery plant, this type of  
26  
27 loss is encountered during set-ups between different products, testing  
28  
29 during start-ups and fine-tuning of machines and instruments.  
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#### 33 Speed losses

- 34  
35 (3) Idling and minor stoppage losses occur when production is interrupted by  
36  
37 temporary malfunction or when machine is idling. For example dirty  
38  
39 photocells on palletizing machines cause minor stoppages. Though they  
40  
41 are quickly fixed, much capacity is lost due to their frequency.  
42  
43  
44 (4) Reduced speed losses refer to the difference between equipment design  
45  
46 speed and actual operating speed. In a palletizing plant, use of  
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48 unadapted pallets cause longer processing time for the same number of  
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50 bottles leading to speed losses.  
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#### 54 Quality Losses

- 55  
56 (5) Quality defects and rework are losses in quality caused by malfunctioning  
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58 production equipment. For example, some pallet types get stuck in  
59  
60 between depalletizer and unpacker and are damaged.

(6) Reduced yield during start-up are yield losses that occur from machine start-up to stabilisation. For example in the brewery, poor preparation for morning shift by night shift leads to problems with the filling taps and thus leads to reduced yields.

The six big losses are measured by OEE, which is a function of availability (A), performance (P) and Quality rate (Q). Therefore:

$$OEE = A * P * Q$$

Where,

$$\text{Availability Rate (A)} = \frac{\text{Operating Time (hrs)}}{\text{Loading time (hrs)}} \times 100$$

$$\text{Operating Time} = \text{Loading Time} - \text{Downtime}$$

$$\text{Performance Efficiency (P)} = \frac{\text{Theoretical Cycle time (hrs)} * \text{Actual Output (Units)}}{\text{Operating Time (hrs)}}$$

$$\text{Quality Rate (Q)} = \frac{(\text{Total Production} - \text{Defect Amount})}{\text{Total Production (Units)}} \times 100$$

The OEE measurement tool has its strength in the way it integrates different important aspects of manufacturing into a single measurement tool. The perspectives integrated in the OEE tool are the maintenance effectiveness, production efficiency and quality efficiency as shown in figure 1.

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‘[Insert Figure 1 here]’

### 3. Evolution Of OEE

Though the OEE tool has become increasingly popular and has been widely used as a quantitative tool essential for measurement of productivity, it is only limited to productivity behaviour of individual equipments (Huang *et al*, 2003). Scott and Pisa (1998) have pointed out that the gains in OEE, while important and on going, are insufficient because no machine is isolated. They points out that manufacturing process is a complex web of interactions among process tools, materials, machines, people, departments, companies and processes. However, too often these inter-dependent activities are viewed in isolation and there is lack of coordination in deploying available factory resources (people, information materials and tools) to manage work efficiently. It is therefore necessary to focus one’s attention beyond the performance of individual equipment toward performance of the whole factory. The ultimate objective of any factory is to have a highly efficient integrated system and not brilliant individual equipments (Oechsner *et al*, 2003).

This insufficiency of OEE tool has led to modification and enlargement of original OEE tool to fit a broader perspective as deemed important in the manufacturing systems. With the modification of OEE, different terminologies has also come up in literature and in practice, coupled with their modified formulations. Some of the modified formulations are limited to effectiveness at equipment level (e.g. PEE and TEEP) while others have been extended to

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4 factory level effectiveness (e.g. OFE, OTE, OPE and OAE). This paper looks  
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6 into these different terminologies and formulations developed in literature.  
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9 Further, two industrial examples are discussed as an illustration of industrial  
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11 practice concerning OEE. This has been done using examples from 2 Western  
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13 European companies. The different terminologies and consequent formulations  
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15 are as follows:  
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### 20 **3.1 Total Equipment Effectiveness Performance (TEEP)**

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25 Total Equipment Effectiveness Performance (TEEP), proposed by Invancic  
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27 (1998), is very similar to OEE. The main difference lies in the inclusion of  
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29 planned downtime in total planned time horizon. In order to show clearly how  
30  
31 maintenance contributes to the bottom line productivity of the plant, a clear  
32  
33 distinction is made between planned downtime and unplanned downtime.  
34  
35 Minimising unplanned shutdown, sometimes called technical downtime, is a  
36  
37 common goal in maintenance. Unplanned downtime is a function of the number  
38  
39 of breakdowns within a specified time period and related measures such as  
40  
41 mean time between failures (MTBF) and mean time to repair (MTTR) (Pintelon  
42  
43 *et al*, 2000). MTBF and MTTR are claimed to be measures of equipment  
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45 achievement and are related to objectives such as functional performance and  
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47 process capability (Wilson, 1999).  
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56 With the help of TEEP, planned and unplanned downtime can be measured.  
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58 Thorough analysis of these two elements enables the maintenance function to  
59  
60 improve equipments availability by either increasing the mean time between

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4 failure (MTBF) or reducing the mean time to repair (MTTR). The other elements  
5 included in the TEEP measure are the speed losses and quality rate, which are  
6 also in OEE. The TEEP is calculated by dividing the valuable operating time  
7 (VOT) with the total available time ( $T_T$ ) as shown in figure 2. The constituent  
8 elements (losses) in TEEP are analysed and measured as shown in figure 3.  
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19 **'[Insert Figure 2 here]'**  
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23 The TEEP measure, like OEE, is limited to equipment level productivity. It is  
24 also applicable to a processing plant or a flow shop where the production  
25 process can be treated like a single production entity.  
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33 **'[Insert Figure 3 here]'**  
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### 37 **3.2 Production Equipment Effectiveness (PEE)**

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42 Production equipment effectiveness (PEE), formulated by Raouf (1994), is  
43 similar to OEE. The main difference with OEE is the allocation of weights to the  
44 various items in the overall effectiveness. It assumes that quality has different  
45 weight from performance and different from availability contrary to the basic  
46 assumption in OEE that the three elements have the same weight. It also makes  
47 a distinction between two different types of production operations namely:  
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- 56 1. Discrete-type production operations and
- 57 2. Continuous process operation.  
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For discrete-type production operation, PEE is calculated as follows:

$$PEE = (A^{\kappa_1}) (E^{\kappa_2}) (Q^{\kappa_3})$$

Where, A = Availability

E = Performance Efficiency

Q = Quality efficiency

$\kappa_i$  is the weights of the PEE elements (for  $i=1$  to 3),  $0 < \kappa_i \leq 1$  and  $\sum \kappa_i = 1$

For continuous process operation, PEE is defined as function of availability ( $A_1$ ), attainment ( $A_2$ ), performance efficiency (E), quality rates (Q), product support efficiency (PSE) and operating utility (OU). These losses are outlined in PEE diagram as shown in figure 4. Therefore:

$$PEE = (A_1)^{\kappa_1} (A_2)^{\kappa_2} (E)^{\kappa_3} (Q)^{\kappa_4} (PSE)^{\kappa_5} (OU)^{\kappa_6}$$

Where,

$\kappa_i$  is the weights of the PEE elements (for  $i=1$  to 6),  $0 < \kappa_i \leq 1$  and  $\sum \kappa_i = 1$

**‘[Insert Figure 4 here]’**

The availability rate considers the planned or scheduled downtime and is similar to the planning rate in TEEP. The attainment rate considers the unscheduled downtime and is similar to availability in TEEP. The other additional factors included are the product support efficiency and operating utility, which considers the transaction losses and no demand time respectively. It is assumed that there

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4 is no setup time needed for the continuous process operation and therefore,  
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6 setup time loss has not been included in the PEE diagram.  
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### 10 11 **3.3 Overall Factory Effectiveness (OFE)** 12 13

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16 The overall factory effectiveness (OFE) was developed to measure the factory  
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18 level effectiveness, where several production steps or machines are installed to  
19  
20 form a production process. While OEE is about achieving excellence in  
21  
22 individual equipment, OFE is about the relationships among different machines  
23  
24 and processes. As noted by Scott and Pisa (1998), OFE seeks to integrate the  
25  
26 many activities and information systems that production process entails. OFE is  
27  
28 therefore a term about combining activities, relationships between different  
29  
30 machines and processes, integrating information, decisions, and actions across  
31  
32 many independent systems and subsystems (Oechsner *et al*, 2003). Among the  
33  
34 issues that OFE seeks to accomplish is; to synchronize the production schedule  
35  
36 with planned downtime, setup time and qualification time through tighter  
37  
38 connectivity to enterprise planning systems and infinite capacity schedule;  
39  
40 optimize the sequence of orders, works or jobs; ensure a balanced line and  
41  
42 smooth flow of work by integrating micro-scheduling with overall plant  
43  
44 scheduling (Williamson, 2006).  
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54 Up to now, there is no common approach for the OFE metrics. However, some  
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56 proposals are given in literature of which two are discussed. The approach of  
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58 Scott and Pisa (1998) considers the fact that different plants have different  
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60 goals and so there can be no single indicator. They suggest creating a

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4 composite metrics (e.g. cycle time efficiency, on-time delivery, capacity  
5 utilization, rework arte, yield rate etc) that ask for specific key goals. The  
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7 important thing is to define measuring criteria for success and application of  
8  
9 weight factors as desired to meet corporate goals. For these metrics, an overall  
10  
11 result is computed.  
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18 Another approach proposed by Huang *et al* (2003) considers simulation analysis  
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20 as the most reliable method in studying the dynamic performance of  
21  
22 manufacturing systems. It defines an OFE metric, overall throughput  
23  
24 effectiveness (OTE), developed on the basis of OEE metrics analysis, for  
25  
26 complex connected manufacturing systems. These metrics are integrated with  
27  
28 simulation analysis for manufacturing productivity improvement.  
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35 From the OEE formula and the OEE diagram (see figure 1), OEE is calculated in  
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37 terms of production units as;  
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$$42 \quad OEE = \frac{\text{Number of good parts produced } (P_g)}{\text{Theoretical number of parts produced in total time } (P_{th})}$$

43  
44  
45  
46 Where,

$$47 \quad P_{th} = \text{Theoretical production rate } (R_{th}) * \text{Total available time } (T_T)$$

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53 By extending the expression of unit-based OEE to factory level, the overall  
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55 throughput effectiveness (OTE) during period  $T_T$  is defined as;  
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$$\text{OTE} = \frac{\text{Good product output (units) from factory (P}_{g(F)})}{\text{Theoretical attainable product output (units) from factory in total time (P}_{F(\text{th})})}$$

Similarly,

$$P_{th(F)} = R_{th(F)} \cdot T_T$$

Where,

$R_{th(F)}$  = The theoretical processing rate for actual product output from factory.

Using these formulations, OFE for any manufacturing system can be calculated.

Since many manufacturing systems are parallel and/or series the OTE formulation for these two systems have been developed.

It is however noted that the OFE metric are in development stage and simulation analysis is considered the most reliable method to date in studying the dynamic performance of manufacturing systems (Huang *et al*, 2003). The under laying concept behind simulation is that manufacturing systems can be treated as a combination of a number of simple subsystems, which in turn are the combination of individual production equipments (Huang, 2002). Productivity metrics are then integrated in the model to measure system performance and help identify productivity improvement opportunities.

### 3.4 OAE and OPE

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4 OAE (overall asset effectiveness) and OPE (overall production effectiveness)  
5  
6 are measurement tools that have been developed from OEE tool. Though the  
7  
8 terms have limited application in literature, they have been applied extensively  
9  
10 in the industries. They are applied to identify and measure all the losses  
11  
12 associated with the overall production process. The two terms have the same  
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14 meaning with regards to industrial application. However, the elements or losses  
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16 measured differ from one industry to another. Production losses are measured  
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18 by either measuring time losses or production output losses.  
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26 Two industrial examples of OAE/OPE application are discussed. The two  
27  
28 companies are multinationals located in western Europe and their identities are  
29  
30 left anonymous in this paper. For the two industrial examples, a study was done  
31  
32 on the structure of their OAE diagram and the type of production losses it  
33  
34 measures. However, the study did not involve detailed case study on the  
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36 dynamics of data collection.  
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#### 42 **4.0 Industrial Examples of OAE Application.**

##### 43 44 45 46 **4.1 Company A**

47  
48 Company A is a chemical processing company. The OAE tool is used with the  
49  
50 objective of maximizing the production output and minimizing losses of all types.  
51  
52 The company, therefore, use the production output (tonnage) approach in the  
53  
54 OAE tool to identify the losses.  
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4 The maximum output that the company is able to produce at optimum capacity is  
5 defined as the theoretical maximum tonnage ( $T_T$ ). This is the maximum  
6 production capacity that the plant is able to attain expressed as a quantity  
7 related to time unit: an hour, a day, a week, a month or a year. The optimum  
8 operation of a plant is reduced in several circumstances by production losses  
9 ( $PL$ ). Instead of the anticipated theoretical tonnage  $T_T$ , the plant delivers an  
10 actual tonnage  $T_{ACT}$  corresponding to the tonnage actually produced within the  
11 commercial specifications. Therefore,  
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26 Production Losses,  $PL = T_T - T_{ACT}$   
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30 The identifiable production losses are grouped in the following categories;  
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#### 34 1. $PL_{com}$ 35

36 These are production losses related to commercial demand. These are the  
37 result of plant shutdowns, lower production rates, or production overcapacity  
38 compared to commercial demand. They also include the quantity of out of  
39 specification product attributable to adjusted operating rate.  
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#### 49 2. $PL_{ch}$ 50

51 The production schedule provides for consecutive production of products with  
52 different characteristics. The changeover entails slower production or stoppage  
53 to adjust the operating parameters, or swap equipments and tools. The result is  
54 a production loss ( $PL_{ch}$ ) compared to continued operation with the same  
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4 product. In addition, this situation frequently results in quantities of product that  
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6 don't meet quality specifications and are also entered under  $PL_{CH}$ .  
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### 10 11 3. $PL_F$

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13 These are the production losses resulting from poor reliability. Two different  
14  
15 types of poor reliability may occur:  
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18 (a)  $PL_{FE}$  - These are production losses due to external causes that are  
19  
20 totally outside the company's control. This may be due to:  
21  
22

- 23 • Third party failure to supply
- 24 • Shortage of energy (electricity, gas, etc.)
- 25 • Supply problems resulting from logistics (e.g. railways,  
26 road haulers, sea or waterway transport).
- 27 • Exceptional poor weather conditions
- 28
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34 (b)  $PL_{FI}$  - These are production losses due to internal causes for which  
35  
36 the company is accountable. These production losses result from  
37  
38 production slowdowns or stoppages as a result of the following  
39  
40 occurrences:  
41  
42

- 43 • Equipment failure.
- 44 • Utility shortage.
- 45 • Labor unrest.
- 46 • Organization problems.
- 47 • Safety, health and environmental problems.
- 48 • Mandatory planned shutdowns.
- 49 • Operation errors
- 50 • Planned shutdown due to capital expenditure work
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#### 4. $PL_{OP}$

These are production losses related to poor operation performance. Causes may be due to problems relating to process, equipment performance degradation through aging or losses associated with shutdown or start-up difficulties (especially after major shutdowns).

#### 5. $PL_Q$

These are losses due to quality of the products (failure to produce product within specification). It includes all products out of specification due to technical or commercial reasons (except out of specification products related to  $PL_{COM}$  and  $PL_{CH}$ ), as well as quantities of recycled product.

The production losses are presented in the OAE diagram as shown in figure 5. From the OAE diagram, overall asset effectiveness (OAE) and operating asset utilization (OAU) are calculated as follows:

$$\text{Overall Asset Effectiveness, } OAE = \frac{T_{ACT}}{T_T}$$

$$\text{Operating Asset Utilization, } OAU = \frac{T_{ACT}}{T_T - PL_{COM}}$$

**'[Insert Figure 5 here]'**

The various categories of production losses, as outlined in the OAE diagram, help to highlight the possible areas where losses can be reduced. From the OAE

1  
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4 diagram the other production loss rates are calculated. The asset effectiveness  
5  
6 results are reported on monthly basis, and from the monthly report, yearly  
7  
8 performance can be calculated.  
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#### 10 11 **4.2 Company B**

12  
13 Company B is a packaging industry. OEE metrics are used to identify the major  
14  
15 drivers of packaging line manufacturing performance and identify areas of  
16  
17 process improvement. The defined drivers of manufacturing performance are  
18  
19 equipment utilization based on 24 hours per day availability, capacity utilization,  
20  
21 overall equipment effectiveness (OEE), and overall production effectiveness  
22  
23 (OPE).  
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30  
31 The manufacturing performance measurement is based on the equipment  
32  
33 timings, and therefore the losses are measured in terms of time losses. It is  
34  
35 assumed that the equipment is available to be run for 24 hours per day and 7  
36  
37 days per week. The time usage for the equipment is measured as follows:  
38  
39  
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41

##### 42 **1. The Unscheduled time**

43  
44 This is defined as the time the equipment is available to run more production.  
45  
46 This is the available time due to holidays, mid-week idle time, weekends, and  
47  
48 reduced rate due to lack of scheduled demand.  
49  
50  
51

##### 52 **2. The Scheduled downtime**

53  
54 This is the time allocated to scheduled activities on the equipment due to  
55  
56 planned maintenance or shut downs, meetings, training or breaks, planned  
57  
58 cleaning and standby state.  
59  
60

### 3. The 7 major losses

Seven major time losses can be encountered during the production process.

These are due to:

- (i) Major stoppages due to machine failure or due to production defect. The stoppage is said to be major if it takes more than 10 minutes. Major stoppages may also result due to supplier related downtime or warehouse downtime.
- (ii) Change over from one product to another or from product of one size to another.
- (iii) The cutting blade loss, which is the time lost in replacing routine wear parts.
- (iv) Start up and shut down losses occurring after annual shutdown, after holidays or weekend, and after lunch and breaks.
- (v) Minor stoppages. These are the stoppages that are less than 10 minutes for example due to equipment jams.
- (vi) Speed losses, which is the lost equipment capacity resulting from operation at a reduced speed.
- (vii) Quality losses due to products that fail to meet specifications.

### 4. Running time

This is the time that is left for production and it is also referred to valuable operating time. Manufacturing losses are presented in the OAE diagram as shown in figure 6. From the OAE diagram, asset (capacity) utilization, OEE and OPE are calculated.

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7 Asset (capacity) utilization defines how effective an asset is being utilized. The  
8  
9 inverse reveals how much more output is available from the current asset if  
10  
11 needed today. Thus;  
12  
13

$$14 \text{ Asset Utilization} = \frac{15 \text{ Loading Time}}{16 \text{ Total Available Time}} \\ 17 \\ 18$$

19  
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21  
22 The OEE measure is defined as the ability to run equipment at the designed  
23  
24 speed with zero defects. In order to maximise OEE, the 7 major losses should  
25  
26 be reduced. Thus;  
27  
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29

$$30 \text{ OEE} = \frac{31 \text{ Valuable Operating Time}}{32 \text{ Operating Time}} \\ 33 \\ 34$$

35  
36  
37  
38 **'[Insert Figure 6 here]'**  
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42  
43 Finally, the overall production effectiveness (OPE), measures how well the  
44  
45 supply chain is effectively utilizing the manufacturing assets. Thus, the OPE  
46  
47 measure considers planned downtime and unscheduled time in addition to 7  
48  
49 major losses, as supply chain losses. Thus;  
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$$53 \text{ OPE} = \frac{54 \text{ Valuable Operating Time}}{55 \text{ Total Available Time}} \\ 56 \\ 57$$

## 58 59 60 **5. Discussion on the existing tools**



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7 The literature review on OEE evolution reveals a lot of differences in formulation  
8 of equipments' effectiveness. The main difference lies in the types of production  
9 losses that are captured by the measurement tool. Though the original OEE tool  
10 identifies six major losses in a production set up, other types of losses have  
11 been found to have a significant contribution to the overall production loss.  
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21 In the TEEP tool (see fig. 2 & 3), a lot of emphasis is given to the influence of  
22 machine failure and maintenance on plant productivity. Planned downtime is  
23 included to show the percentage time and production lost due to shutdown  
24 maintenance. Specialised attention is given to unscheduled downtime and the  
25 related metrics like the mean time between failure (MTBF) and mean time to  
26 repair (MTTR). The analysis and improvement of the plant based on these  
27 metrics enables the maintenance function to improve the functional performance  
28 and process capability of the plant. Like OEE, it also includes losses related to  
29 quality and speed. However, the tool only considers losses in the operational  
30 level of the plant. It is therefore limited to individual equipment or continuous  
31 process effectiveness.  
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49 The PEE tool for continuous process (see fig. 4) also measures the scheduled  
50 and unscheduled downtime due to maintenance. However, it goes further and  
51 measures losses to due commercial demand and transaction losses. These  
52 losses are included to show the percentage of time the machine is down due to  
53 lack of demand. In total, it measures both operational and commercial related  
54 losses.  
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7 The industrial examples of OAE application also reveal a big difference in  
8 elements included in production loss identification. For example in company A,  
9 different categories of losses have been defined (see fig.5). These includes  
10 losses related to commercial, internal and external reasons, changeovers,  
11 speed losses and quality problems. It groups, for example, all internal losses in  
12 one category without giving specialised attention to individual causes. This may  
13 not be effective means of measurement because each type of loss requires  
14 special attention and corrective action. Company A considers all types of  
15 production losses but lacks a clear method of classifying the individual losses  
16 and therefore, the measurements cannot effectively support continuous  
17 improvement. Company B, on the other hand, has a complete breakdown of all  
18 the operational type of losses (see fig 6). It identifies seven major losses, which  
19 together with scheduled and unscheduled downtime constitute all the  
20 operational production losses. However, it does not consider production losses  
21 due to commercial demand fluctuation or losses due to other internal business  
22 or external reasons. These differences lead to development of overall production  
23 effectiveness framework.  
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## 49 **6. In search of general framework for OAE /OPE measurement**

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53 The differences in the measurement of equipment's effectiveness, in both  
54 literature and practice, leads us to two important and enduring research  
55 questions in performance measurement cited by Neely *et al* (2005). These  
56 questions are:  
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7 (1.) What needs to be measured?  
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9 (2.) How will it be measured?  
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14 The first question seeks to know the various factors that influence performance  
15 that need to be monitored through a measurement system. The second question  
16 includes issues such as measurement scale being used, the data source, and  
17 the frequency of measurement. It is noted in literature that the way in which  
18 these questions are answered can influence the validity, reliability, and  
19 practicality of any measure (Thorndike and Hagen, 1969).  
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### 30 **6.1 Factors to be measured**

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32 A framework for identifying different types of losses for overall production /asset  
33 effectiveness is proposed as shown in figure 7. The framework classifies  
34 production losses into different categories depending on the cause of loss. This  
35 classification helps the decision maker to measure different causes of  
36 production losses so that attention can be given to the relevant causes. It also  
37 gives a standardised way of measuring asset effectiveness. The following  
38 production loss categories are defined:  
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52 **'[Insert Figure 7 here]'**  
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56 **Losses due to external reasons** - These are production losses caused by  
57 factors that are beyond the control of the company. Among them is:  
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4 (a) *Commercial Demands* - This is the production loss encountered when  
5  
6 there is no demand in the market. This may result to plant shutdown or  
7  
8 lower production rates.  
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11 (b) *Logistic Problems* - These are production losses caused by logistics  
12  
13 related problems. Among them is third party failure to supply, transport  
14  
15 problems resulting to delay in raw material arrival and shortage of  
16  
17 utility like electricity, gas or water.  
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22 (c) *Environmental Regulations* - These are losses related production  
23  
24 quotas due to environmental degradation. For example restriction on  
25  
26 the amount of carbon dioxide emissions can limit the production  
27  
28 quantity. This forces the plant to produce below capacity and therefore  
29  
30 amounts to production loss.  
31  
32  
33 (d) *Natural causes* - These are production losses that result from natural  
34  
35 causes like poor weather condition.  
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42 **Losses due to internal reasons** - These are production losses caused by  
43  
44 factors within the control of the company. These causes should be analysed and  
45  
46 corrective action taken to minimise the losses. Two major categories of these  
47  
48 types of losses are business related and operation related losses.  
49  
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- 51 (a) *Business related losses* - These are production losses resulting from  
52  
53 problems at entire business level. Among them is:  
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- 56     ▪ Internal logistics problems like shipping and storage of the  
57  
58 finished goods. This may cause production to slow down or shut  
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4 down for a while. Production can also be slowed to control the  
5 amount of finished goods stocks.  
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- Organization problems or labour unrest will cause the production to shutdown leading to production loss.
  - Environmental, health and safety problems cause production to be slowed down or stopped.
  - Capital projects within the plant forces production to be stopped until they are finished.

(b) *Operation related losses* - These are production losses encountered in the cause of running the plant. They are the most regular problems encountered in production and therefore, they are the most analysed losses. They include the six major losses cited in literature (Nakajima, 1988) and the scheduled downtime. Due to their chronic nature of occurrence, much of the study on equipment effectiveness is directed towards them.

Among the operational related losses is the unscheduled downtime due to machine failure. The equipment failure downtime determines the equipment availability and this is defined as the period of time a machine can actually be used for production purposes. The availability rate is determined by three factors namely reliability, maintainability and maintenance readiness (Fleischer *et al*, 2006). The reliability factor is the length of time equipment is able to run without failure and is measured by mean time between failure (MTBF). Maintainability is the length of time an equipment can be brought back to

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4 operating condition after it has failed and is measured by the mean time to  
5 repair (MTTR). Since it is the responsibility of maintenance function to ensure  
6 the availability of production equipment, the availability rate is related to  
7 maintenance effectiveness.  
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16 The other important time loss is changeover time and replacement of routine  
17 wear parts time. Though the changeover time varies from one operation to  
18 another, it takes considerable amount of time that requires analysis and  
19 reduction. The other major losses are minor stoppages, idling time, reduced  
20 speed and quality defects that have been discussed in the literature review.  
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Specialised measurement, analysis and reduction of each of these losses is key  
in improving the equipment effectiveness.

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The inclusion of all these causes of production losses in the OAE calculation  
gives a complete picture of overall production effectiveness and supports  
decision makers in identifying areas where improvement is necessary. The  
unscheduled time is included to show the unutilized capacity and the available  
output from the current assets. Clear differences between OEE, TEEP, PEE  
and OPE are also shown in figure 7 and the type of losses each of them  
includes.

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As shown in figure 7, effectiveness measures can be analysed from equipment  
level (OEE), operation level and at overall production or factory level. OEE is  
defined as a measure of ability to run equipment without failure, at the designed  
speed and with zero defects. It is therefore concluded that only the production

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4 losses related to equipment should be used to calculate the overall equipment  
5 effectiveness (OEE). Scheduled downtime should therefore not be used in OEE  
6 calculation.  
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## 10 11 12 13 **6.2 How to measure OEE** 14

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18 This is an important aspect that addresses the measurement scale, data source  
19 and measurement frequency. The validity and usefulness of OEE measure is  
20 highly dependent on the data collection and accuracy. Data collection is an  
21 important phase of performance measurement and continuous improvement  
22 since what has not been measured cannot be improved. It has been claimed that  
23 many manufacturing companies measure efficiency of their lines in such a way  
24 as to 'mask' many of the causes of lost efficiency (Parsec, 2005). This is due to  
25 inadequate data collection or inaccuracy in data recording. Data collection and  
26 accuracy is a big challenge for many companies. It is reported in literature  
27 (Ericsson, 1997) that accurate equipment performance data is essential to the  
28 success and long-term effectiveness of TPM activities. If the extent of  
29 equipment failures and production losses are not entirely understood and  
30 measured, then TPM actions cannot be deployed optimally to solve major  
31 problems or arrest deteriorating performance.  
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54 Jonsson and Lesshammar (1999) propose that data collection should be at such  
55 detailed level that fulfils its objective without being unnecessarily demanding of  
56 resources. The difficulty of data collection is dependent on the complexity of the  
57 manufacturing system and whether the data collection is manual or automated.  
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4 For manual data collection, accuracy is very low since recording of some minor  
5 stoppages or downtime can often be forgotten. Though the cost of manual data  
6 collection is minimal, detailed manual data collection may demotivate the  
7 personnel and lead to reaction against the measurements. With the use of MES  
8 (manufacturing execution system) and ERP (enterprise resource planning),  
9 collection of OEE related data is automated in some manufacturing enterprises.  
10  
11 Though the cost associated to these installations is considerable, the data  
12 accuracy is high and the data collection process is simplified. Introduction of  
13 these modern software tools is being leveraged to produce sophisticated real  
14 time reports that allow manufacturers to fully understand all their sources of lost  
15 productivity (Parsec, 2005). With the adoption of these new automated  
16 technology of data capturing, the areas of lost production time will be easily  
17 identified.

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37 To measure production losses using OEE, two units can be used: the production  
38 output (tonnage) loss and production time loss. Quality and speed losses are  
39 calculated using production output while availability is calculated using  
40 downtime. Recording of individual production time loss is the most practical  
41 measurement method in many production systems. The frequency of  
42 measurement varies from one industry to another. For automated data  
43 collection, OEE values can be calculated on real time. The values can then be  
44 summarised on hourly and daily basis. For manual data collection, losses  
45 (production time and rejects) should be recorded on real time. Then OEE values  
46 can be summarised on daily basis. From the daily values, weekly and monthly  
47 values can be calculated. A current survey on manufacturing companies



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4 (Aberdeen Group, 2006) indicates that best in class companies are not only  
5  
6 more vigilant and persistent in their measurement efforts but also monitor and  
7  
8 measure their performance more frequently. The survey indicates that  
9  
10 operational measures such as OEE, for such companies is monitored daily, at  
11  
12 minimum, in order to trigger effective corrective or preventive action.  
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## 18 **7. Conclusion**

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23 From the analysis of the OEE tool, its evolution and application in the industries,  
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25 it is concluded that OEE is a valuable measure that gives information on the  
26  
27 sources of lost time and lost production. Many companies routinely hit capacity  
28  
29 constraints and immediately consider adding overtime for existing workers,  
30  
31 hiring worker for new shift or buying new production line to boost their  
32  
33 production capacity. For such companies, OEE tool can help them to optimize  
34  
35 the performance of the existing capacity. It is a valuable tool that can help  
36  
37 management to unleash hidden capacity and therefore reduce overtime  
38  
39 expenditures and allow deferral of major capital investment. It aids in reducing  
40  
41 process variability, reducing changeover times and improving operator  
42  
43 performance. These are measurable benefits that substantially improve the  
44  
45 bottom line of production operation and enhance the companies' competitive  
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47 edge.  
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56 It is shown that OEE has evolved to include others production losses that were  
57  
58 not originally included. This has lead to development of new terminologies like  
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60 TEEP, PEE, OPE, OAE and OFE. The difference between these terminologies

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4 or tools is based on the type of production losses included as shown in figure 8.  
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7 It was also found that the industrial application of OAE varies from one factory  
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9 to another. This is dependent on the types of production losses important to  
10  
11 each company. From industrial examples analysed, it was found that specialised  
12  
13 attention of important losses was lacking. In some cases, some important types  
14  
15 of losses were completely left out.  
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20 To harmonise the differences in literature and in practice, a framework for  
21  
22 measuring the production losses has been developed. This framework proposes  
23  
24 three levels of effectiveness measurement namely equipment level effectiveness  
25  
26 (based on original OEE), operational level effectiveness (based on TEEP) and  
27  
28 business level effectiveness (OAE/OPE). Due to the chronic nature of the  
29  
30 operational causes of production losses, pertinent rates like availability,  
31  
32 performance rate, quality rate, scheduled downtime rate, etc needs to be  
33  
34 highlighted to enable specialised attention to the particular losses. The  
35  
36 framework also identifies losses due to business related problems like stock  
37  
38 control, storage or shipping problems and other non-operational related causes.  
39  
40 It proposes measurement of production losses due to external reasons. This  
41  
42 may be due to lack of demand, logistics problems (e.g. supplier or transport  
43  
44 failure, utility shortage), environmental regulations or natural causes. The  
45  
46 framework leaves room for customization with respect to losses that need  
47  
48 specialised attention. The inclusion of all types of losses in the OAE tool gives  
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50 management complete information for well-informed decision making.  
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4 It is also concluded that the OAE tool is best suited in measurement of individual  
5 equipments, discrete-type processes and in continuous processes effectiveness.  
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9 This is beneficial in high volume process based manufacture where capacity  
10 utilisation is of high priority and stoppages or disruptions are expensive in terms  
11 of lost capacity (Bulent *et al*, 2000). However, deployment of OEE in low volume  
12 job shops and some batch processes is not very beneficial. Due to the nature of  
13 these processes, the unscheduled production time is high and thus planned  
14 maintenance can take place then. Also, failure of one machine does not have a  
15 big impact because production can be re-routed to another machine. The  
16 change-over time is not relevant since set-up can be done on one machine as  
17 production continues on the other. For production processes with buffers in  
18 between, OEE would need to be redefined since downtime on one process stage  
19 does not directly affect the next stage.  
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37 Finally, the accuracy of the OEE data is very important. The use of OEE as a  
38 production measure necessitates accuracy in the performance data collected.  
39 Without accurate data, the OEE measure can easily lead to lack credibility. It is  
40 therefore important to invest time and money in improvement of data collection.  
41 Data collection can also be highly improved by embracing new automated  
42 technology of data collection.  
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#### 54 **Elements of further research**

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58 The performance elements measured by OEE tool, though important, are not  
59 sufficient to describe the effectiveness of a product system. Some important  
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4 measures (e.g. cost and flexibility) are not measured in the OEE. Further  
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7 research should explore the dynamics of translating equipment effectiveness or  
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9 loss of effectiveness in terms of cost. Though this possibility is on case-to-case  
10  
11 basis, the cost translation of OEE will have more significance to management.  
12  
13 Due to importance of data accuracy in OEE calculations, further research should  
14  
15 include cost and benefits of investing in automated data collection methods.  
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# Performance Measurement Using Overall Equipment Effectiveness (OEE): Literature Review & Practical Application Discussion

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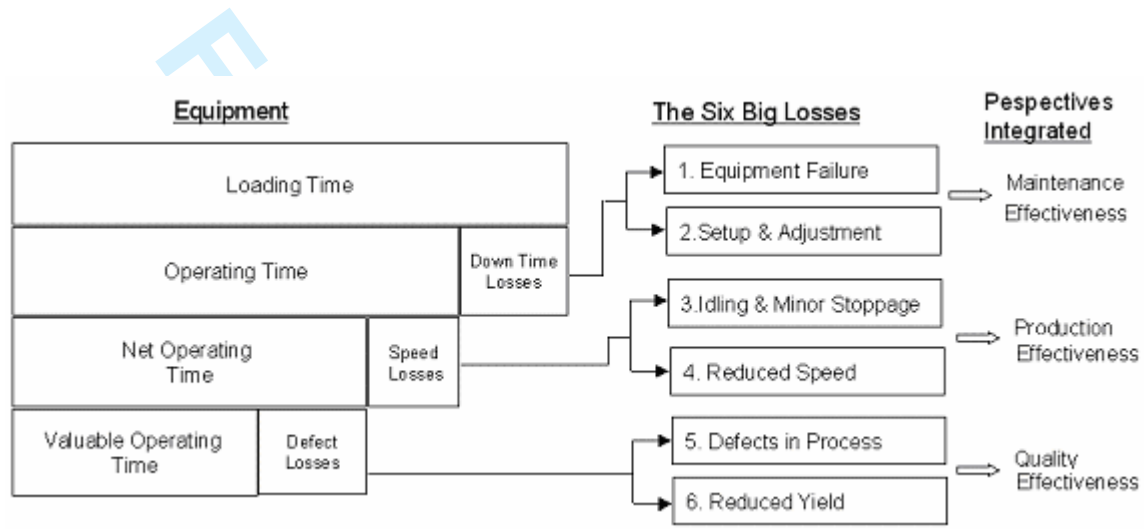


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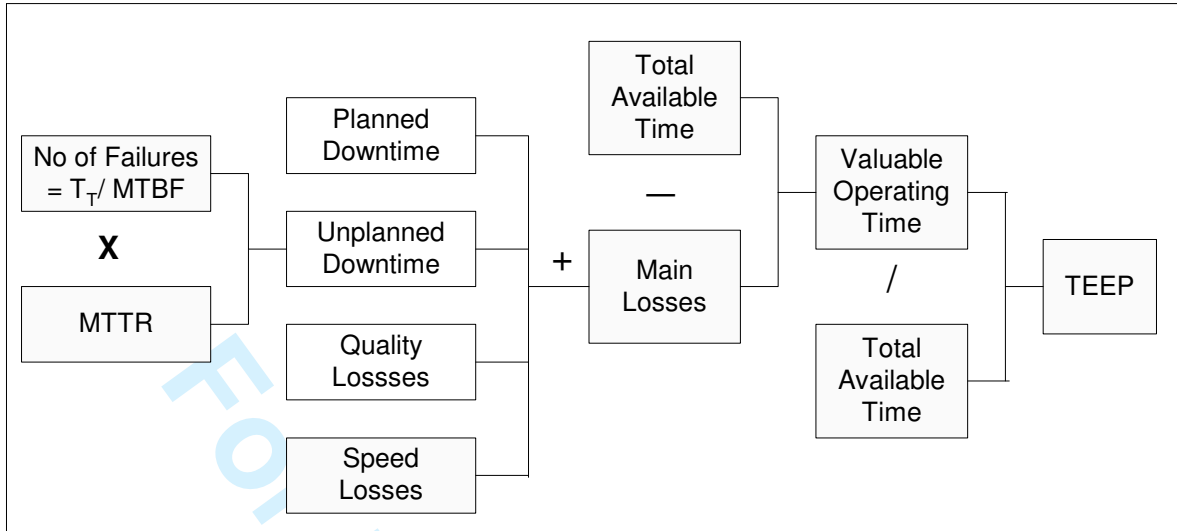


Figure 2: Constituent elements used in the calculation of TEEP

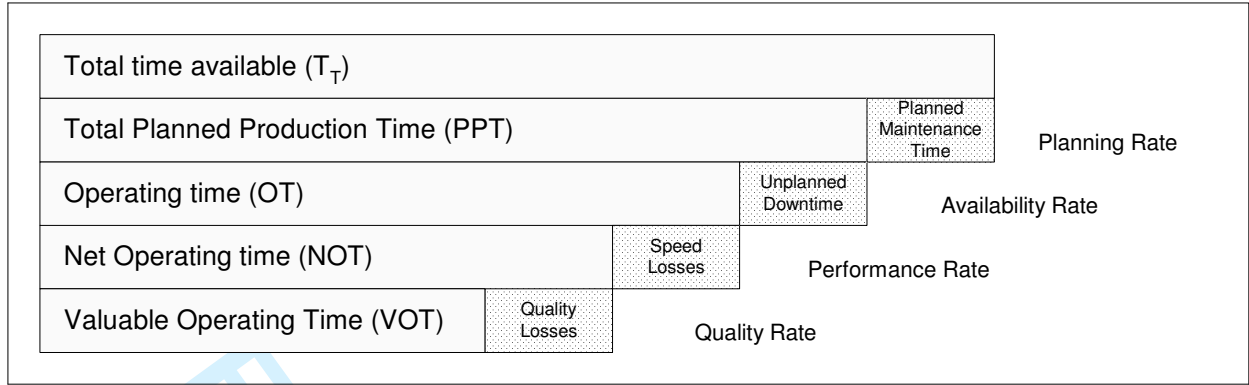


Figure 3: The TEEP diagram and its constituent elements

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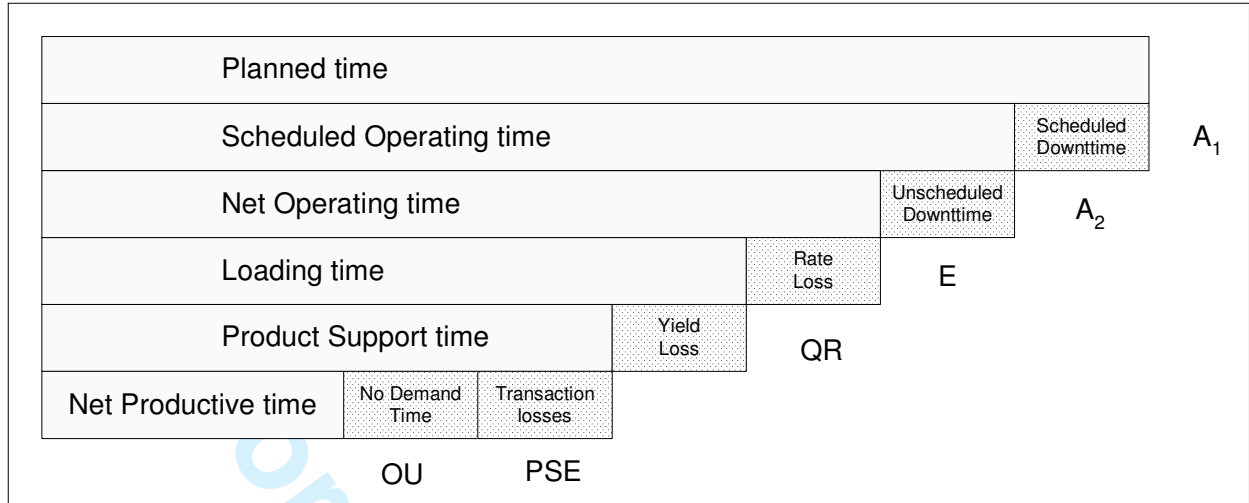


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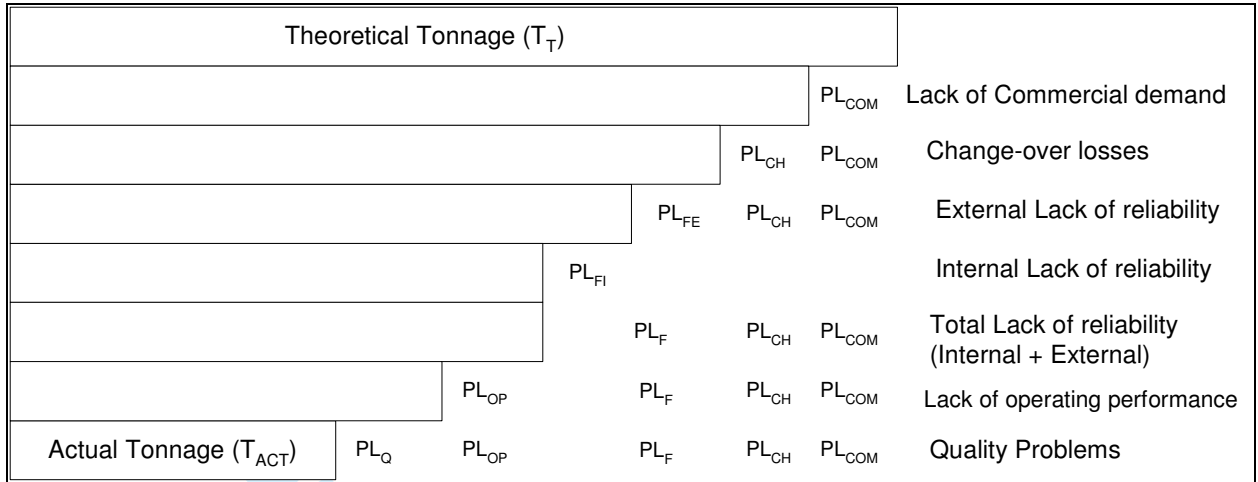


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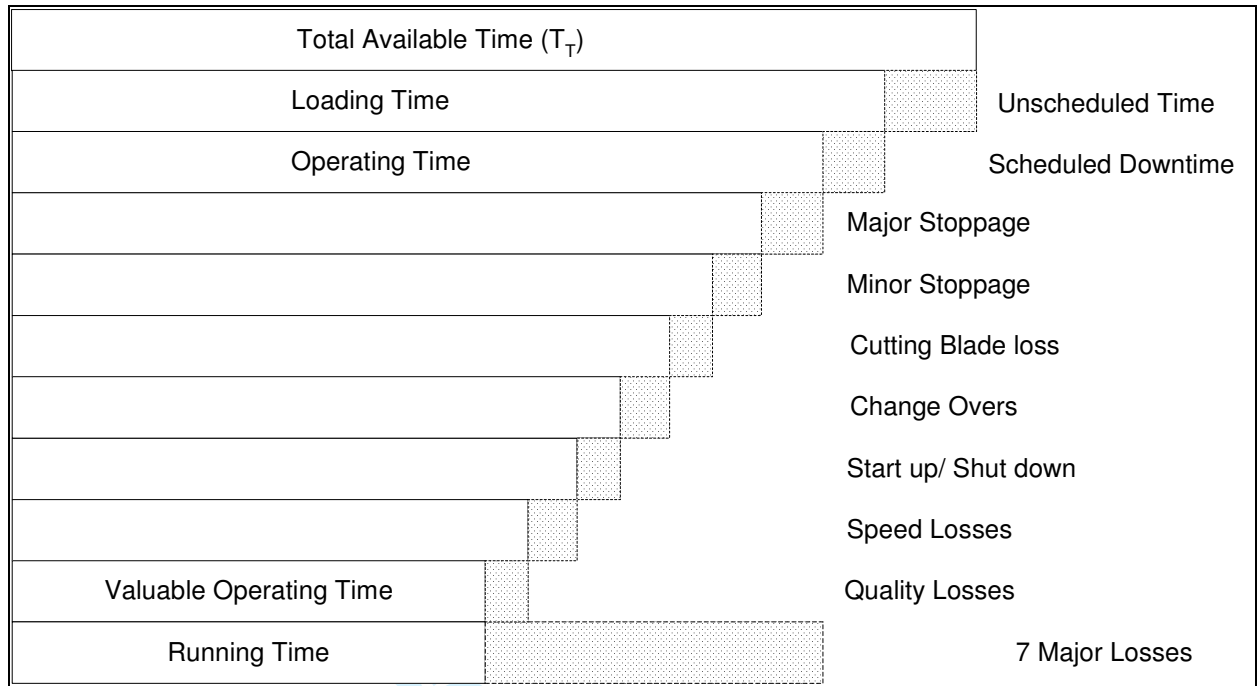


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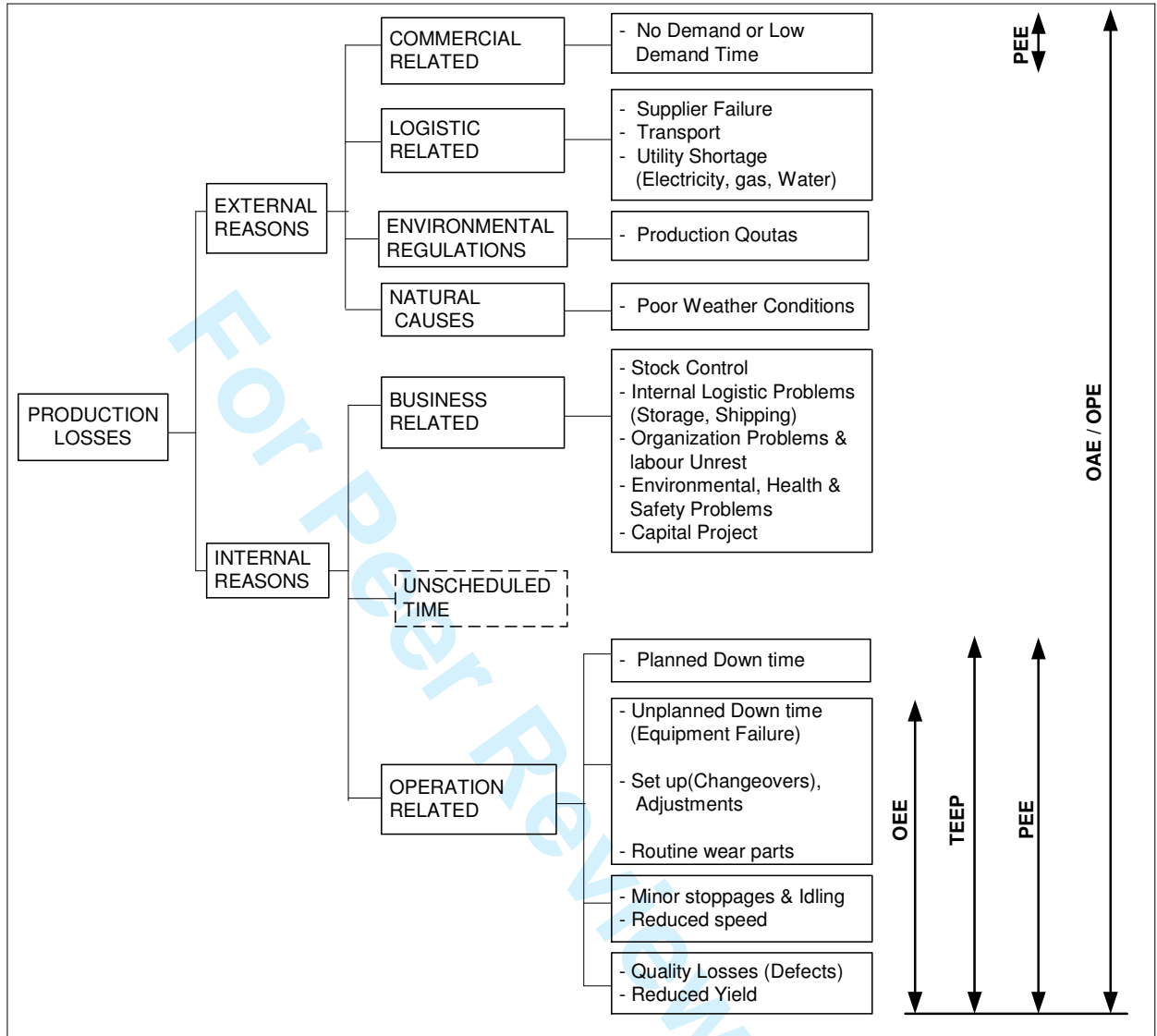


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