



## Reducing Operating Costs Through Asset Optimization



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## Reducing Operating Costs through Asset Optimization

### *Doing More with Less*

**Squeezing greater returns from corporate assets is one of the biggest challenges facing senior management today.** A detailed survey released by CFO Publishing Company indicated that an overwhelming 77% of finance executives were dissatisfied with their company's ability to redeploy idle or surplus assets internally instead of purchasing new fixed assets<sup>1</sup>. Of these resources, it was estimated that more than 15% were sitting idle or would never be used *at all* during their useful life.

### *Looking for an Advantage*

As a result, organizations of all kinds are seeking any advantage to gain an upper hand. Public corporations must increase shareholder value and Government must continually identify options to streamline and enhance the efficiency of delivering services. Of course this should be accomplished with a minimal negative impact on the existing operations.

### Cost Reduction

Conventional cost reduction approaches utilized are: cut salaries, benefits, or even jobs. Loss of competitive advantage can result from reduced service levels, production needs, and capacity or response, as well as the loss of human capital.

### Operational Efficiencies

Improvement of operational efficiency is often most affected by staffing decreases and salary cut backs, and more subtly, by process changes. The impact on systems changes and management reorganization results in very high initiation costs and in many cases no immediate payback.

These approaches usually involve the complex challenges of change management, and require the complete dedication of the organization. Payback on initiatives requiring complex changes may not be realized for a long period of time - if ever. This approach won't meet the goal of achieving measurable and rapid returns.

### *The Low-Risk, High ROI Way to Gain Substantial Operating Savings*

The good news is that you now have the opportunity to achieve both substantial savings and high ROI quickly, and with little to no risk or impact on your existing operations. Reallocating unused or idle assets is the perfect way to gain an upper hand in your struggle to reduce operating costs. In fact, reallocating these assets may represent the fastest, most assured pathway to gaining the operational cost savings you seek.

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<sup>1</sup> Unlocking the Hidden Value in Fixed Assets, CFO Publishing Corporation

## Fusing Increased Efficiency and Decreased Operational Cost

### *Doing More with Less - Means Doing More with What You Have*

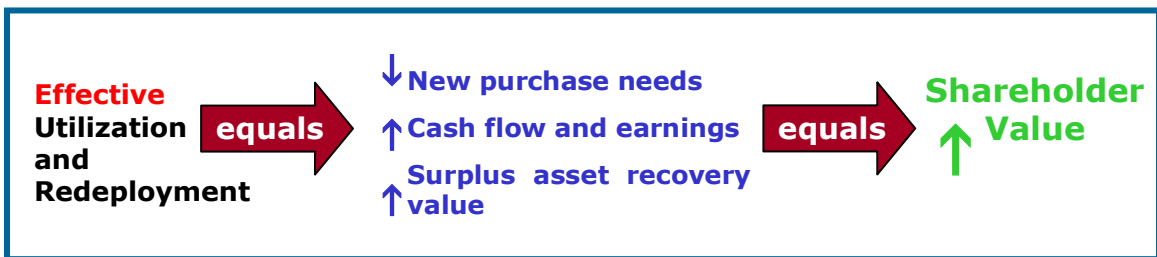
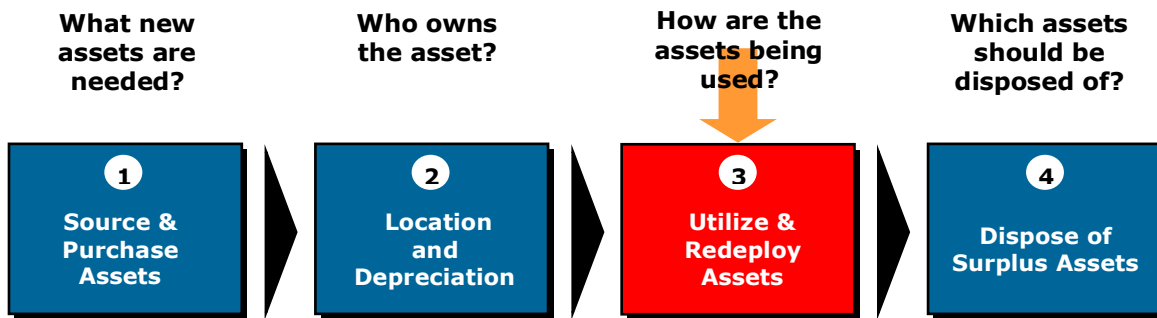
Relentless cutting and slashing can only take an organization so far. Continuously reducing budgets or forcing consolidation will eventually lead to adverse impacts on the effectiveness of the organization. Most of these processes come up short when they are measured against the theory of diminishing returns. At some point, the returns from further cost cutting inevitably lead to decreased efficiency or a lack of quality service.

### *The Asset Lifecycle*

Much attention has been paid to the procurement process. With companies looking for technologies to streamline the purchase of assets, efficiencies are being gained. However, there is only so much “margin” that can be squeezed from a supply chain.

The ownership and disposition of assets has also received attention, however these areas produce little corporate savings.

The aspect of better asset utilization has received the smallest amount of attention; however a focus on this area can produce the greatest potential returns for a corporation.



### *An Innovative and Powerful Approach - Asset Redeployment*

Do you know where your assets are? Do you know if they are being utilized or sitting idle? Do you know if a business unit is about to purchase the same items that already exist, unutilized, within other operating units of your organization?

Surveys confirm that squeezing greater returns from corporate assets is one of the biggest challenges facing senior management today. Of existing assets, it is estimated that more than 15% of a companies assets are sitting idle and *will never be utilized during their useful life*.

Moving available assets from one operational unit to another *saves hard-dollar purchasing costs*. Further, such redeployment -- if done efficiently -- will make resources available to other operating units faster than new purchases.

Therefore, one of Finance's objectives must be to identify assets that are idle or unutilized and then reallocate these resources to another area of the business that can put them to productive use!

### *Types of Idle Assets*

Idle assets typically consist of the following:

- **Excess or unutilized assets** are often production overruns, idle capacity or time, a labor force that is not being utilized, or another asset that could be reallocated or traded for other needed items.
- **Misallocated assets** are usually the result of reductions in an operation's mission, layoffs, or changes in strategy. These assets may consist of such items as furniture, equipment, PCs, software licenses, people, supplies, etc.
- **Over-purchased assets** occur when the required purchase lot was larger than necessary or the lot price was so lucrative that it precluded purchasing a lesser amount.

### *The Key - an Accurate Inventory and Easy Access*

Large organizations continually face dilemmas when attempting to reallocate assets. Most organizations have a need and desire to transfer assets among their departments or divisions, but have only ad hoc and manual methodologies to accomplish this aim. The same is true in government, where reorganization and redirection is a regular occurrence.

Without a solid process and system in place, asset redeployment will remain a cumbersome and exasperating activity. Ad hoc systems that do not fully address the process will never meet the expectations of an organization -- and asset redeployment will abate as managers become frustrated and give up.

Fortunately, advances in information technology have made it considerably easier, more robust, and much less expensive to reallocate assets. With such a system in place, staff members are more inclined to list their surplus goods and services - making these assets far more likely to be redeployed and put to good use elsewhere in the organization.

For a corporation with a billion dollars in assets, the underutilized component is typically \$100 million or more. The ability to redeploy even a small percentage of these assets results in tremendous savings for the corporation.

An increase in asset utilization creates savings that drop right to the bottom line. The results for corporations that are more efficient in their asset management are higher profits, decreased costs and an increase in shareholder value.

### *The Value Proposition*

***Assets that are redeployed internally will result in real reductions in capital expenditures***

An item that is unwanted or unneeded by one business unit which is then redeployed to another unit that needs it benefits both sides of the financial equation. It can reduce procurement costs and conserve cash.

The ability to identify and redeploy idle assets is a pressing concern. If this activity can be accomplished with an efficient system, controlled by management, without a huge investment in computer systems, software and consultants, and if it can be activated in a timely manner, then the results can be immediate and dramatic.

For a government entity, the issues are the same. Local municipalities, school systems, or State entities - all have a similar goal - to streamline their operations and reduce costs. Of course, all of this should be accomplished without a reduction in public services or a decrease in staff, both of which will have negative public impact.

### *Existing Fixed Asset Systems*

Most fixed asset systems are part of a financial system designed to track asset depreciation and balance sheet ownership **only**. If a business unit “owns” 500 computers, the fixed asset system would be able to tell who has the financial responsibility for the asset, perhaps the asset’s depreciation schedule, and the owning manager’s location - but typically not the actual physical location of the asset.

More importantly, the fixed asset system *does not track usage*. The fact that the business unit owns 500 computers may be irrelevant to the utilization of the item if that same business unit is only using 100 of them. This means 400 computers, which are properly accounted for in the fixed asset system, are actually idle and available for redeployment elsewhere within the company - if only their availability was made known.

Large fixed asset systems currently available tend to be either highly complex financial management tools, or biased toward equipment maintenance and depreciation schedules. These are highly specialized tools distributed to either the finance branch or the supplies and equipment operation.

The entry and removal of items in the fixed asset system is tightly controlled, thus limiting access. The ability for a business unit manager outside of the finance department to have access to the system and the opportunity to “list” items that are idle, or to search and “acquire” assets that are needed, is generally not available - or even desirable.

The result of attempting to use these systems to reallocate assets is that little to no materiel is logged for this purpose and little to no participation in asset movement occurs. More importantly, items that may have real value in a reallocation system may already be fully depreciated and uncollected in a fixed assets system.

### Current Methods Have Limitations

While an organization may wish to identify and reallocate any type of asset, most current methods have limitations. A popular method companies use to accomplish this goal is the use of spreadsheets. While the spreadsheet can contain vast amounts of information, there is no global visibility of the items, no easy way to view, search and categorize numerous spreadsheets, and is virtually impossible to keep the information up to date.

Other methods such as email, phone calls, paper records, or word of mouth are even less effectiveness.

### Advantages to Asset Redeployment

There are many advantages to asset redeployment.

- **Real cost avoidance.** Regardless of the reasons for excess assets, *there is no purchase cost involved when an item is redeployed.* The asset is already owned by the organization and is simply being moved to a new location.
- **Rapid delivery.** Redeployment has a much faster delivery cycle. The items are already on hand, there is no purchase request required, no search for vendors, no wait for production, and minimal transit time.
- **Reduced repair and maintenance costs.** Repair parts for items already in inventory are likely to be available. Maintenance contracts have usually been paid for or are part of an overall maintenance strategy.
- **Existing IT assets may already contain proper licenses.** In addition to the cost savings of redeploying computers internally, the organization may also benefit from reduced set up time for new machines and may bypass the need for additional software licenses.

In the case of IT assets, an internal redeployment strategy has many direct tangible cost reduction benefits -- as well as some powerful, intangible ones, too.

The tangible benefits come from reallocating an existing computer from one department to the other with the savings generated by not purchasing the new computer.

If the computer is already loaded with company software and licenses then the financial gain extends beyond the simple savings of the computer cost and moves into soft recovery with the eliminated need for new licenses.

There is another value that is gained in the savings that results from an IT staff that is not needed to configure and to software-enable a new computer. The existing IT asset can simply be moved from one location to another, reducing the start-up time associated with new equipment installs.

### Financial Benefits to Redeployment

The assets or resources to be acquired by units are owned within the organization and should exist in the financial records. Depreciation and acquisition costs have already been entered in the general ledger. When an item is moved from one location or unit to another, there is no additional impact to the asset base and no cash outlay for the organization.

If a business unit can acquire an asset without the use of cash it this does not diminish the value of the asset, thus an item acquired internally has the same inherent "value"

as the same item new. The opportunity to acquire a needed asset is a cornerstone for a companies overall objectives.

The financial benefit occurs as an item is acquired without the use of cash. The organization as a whole benefits, as an unused item is transferred to a needy recipient. Thus the real financial impact on the budget is reduction in purchasing costs. True savings can be tracked as a measure of cost avoidance- which is equal to the external **new** purchase price of the transferred asset, not the depreciated value carried on the books.

Business units that acquire resources without using hard cash have actually increased their purchasing power. If they acquire an asset through reallocation, they can use their current budget for purchases that might have been impossible under their budget cap.

Additionally, the ability to acquire assets that may otherwise have been unattainable due to budget constraints may actually increase the efficiency of the business unit. A color printer, a more productive piece of machinery, a faster computer, could each result in a higher internal efficiency and increased staff morale.

## Establishing the ROI in Asset Optimization

### What is the Cost and When Do I Get “Payback”?

#### *The ROI Equation*

Many cost reduction programs preach savings that is based on a reduced head count. If you do X, you can reduce your staff by Y, thus your savings is Z. As is too often the case in IT investments, organizations frequently find that they don't actually reduce their headcount at all - in fact, it may have to be increased to manage the system! In other cases, the employees end up in new positions or are reassigned to different tasks. Thus, the projected ROI does not occur and the system doesn't come close to paying for itself.

Real ROI can be achieved through quickly and easily through cost avoidance. Every resource unused in one unit that is reallocated to meet mission goals in another is not just theoretical savings, but direct savings that can be accurately tracked.

#### *Reduced Purchasing Budget*

If an asset is moved from one location to another, the resultant activity will create a reduction in the purchasing budget of the acquiring unit. Assets that are acquired internally as opposed to externally will have a direct and measurable result in reduced purchasing.

If your organization could cut their purchasing and procurement expenditures by 5%, what would the savings to your organization be?

#### *Actual Savings are Greater than Book Value*

Another way to calculate savings is through cost avoidance. This is where a company tracks the savings of NOT acquiring an asset at a full retail price.

An organization might transfer items from one unit to another at book value and use this figure as the saved amount. For example, a computer held on the books for a current value of \$500 is transferred to another unit. If the savings are tracked against the transferred or “book” value, then the savings above would be represented as \$500.

This overlooks the point that the organization has its idle assets on the balance sheet at depreciable value not current purchase price! If the cost of acquiring that same computer brand new is actually \$1,500, then the “true” savings to the corporation would be the cost avoidance of not purchasing the item externally. Thus the actual cash savings is \$1,500.

It has been shown that every dollar of unused assets transferred within an organization will result in corporate savings of at least \$3! This comes from the understanding that the company redeploys an asset at book value as opposed to purchasing the same item brand new.

When combined with the documented finding that 15% (or more) of assets in an organization are typically idle or underutilized, this points to the potential for

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significant savings in virtually any organization. For an organization with \$100 million in assets, this translates to \$15 million or more in potential purchase offsets.

The true savings or cost avoidance would exceed the actual book amount transferred as the \$15 million in reallocated assets could potentially exceed \$45 million in corporate savings.

It is estimated that for every \$1 of idle assets transferred within an organization, over \$3 is saved.

It is important to keep in mind that transfers at book value, in many cases, will understate the true savings from a lowered purchasing budget.

### Additional ROI Benefits

For IT assets such as computers, the financial benefit extends beyond the simple aspect of purchase avoidance. Redeploying an existing IT asset that already contains the appropriate software also provides a reduction in new software license fees. The IT staff avoids expending the time involved in the setup of new equipment and the user can be productive on the reallocated equipment in a shorter amount of time.

The intangible benefits of an asset reallocation program are harder to calculate, but no less important.

Incalculable is the value of redeployment that results in greater organizational efficiency, raised morale, or a better work environment resultant from added resources. This "ROI" may be more subtle, but just as valuable.

### ROI Calculator

How much can your organization save with an internal asset redeployment strategy? If you know the amount of your fixed asset base, use the quick calculator below to estimate an ROI for your internal asset management program.

Simply double-click on the chart and it will turn into an Excel Spreadsheet. If you enter the total asset amount, a projected ROI will be displayed.

Estimated Idle Assets as a percentage of the whole:	\$ 75,000,000	(est. @ 15% of total)
Projected amount moved with an Internal Asset System	\$ 11,250,000	(est. @ 15% of idle total)
Potential savings of reallocating asset vs. new purchase	\$ 33,750,000	(est. @ 3 times book value)
Average Total Cost of Solution (over several years):	\$ 2,000,000	(example only)
ROI	\$ 31,750,000	

### *Two Types of Savings - Reduced Purchasing and Increased Efficiency*

If you've used the ROI calculator above, you have now developed a good idea of how much your organization could potentially save with asset reallocation. Tracking savings in organizations will usually be measured in two ways:

1. Reduced Purchasing and Cost Avoidance. As we have discussed, the first method is savings tracked through a reduction in the purchase and procurement budget as well as the cost avoidance of not purchasing the same item brand new.
2. Increased Efficiency. The other process is the increase in productivity that occurs when a reallocated item is delivered to a unit that *would not have had the budgetary wherewithal to purchase this item at all*. If a unit has a limited budget, but can still improve its efficiency with the addition of a resource, or expand its mission as a result of the acquisition of an unobtainable resource, then efficiency is increased with no allocation of hard dollars at all.

If increased efficiency is included in an asset reallocation process, planning expansion of missions and goals can reduce budgetary outlays before the monetary allocation planning begins. If it is utilized during the fiscal year, it can allow non-anticipated reaction without additional funding.

### *Reduced Purchasing Example - Public School System Textbook Redeployment Program*

As an example, let's look at a school system called Your Public Schools ("YPS") - with 10 districts and over 300 schools. The YPS spends over \$500 million each year for textbooks through their current procurement process.

Each year, thousands of textbooks are purchased to fulfill the curriculum. Each school requiring the same text will prepare a request for these books, based upon current student population. Each school is viewed as an "island" when the purchase process starts - the individual school only knows what books they "need" to fulfill their own student and class load. Excess books are not entered into the equation, nor do they impact the acquisition process. Therefore, purchase requests are combined into one order and purchased.

Example: A school system which redeploys books internally between schools as opposed to continually purchasing items they already own.

If the school had a \$500 million procurement budget for books and was able to reduce these purchases by 5%, the resultant savings would be \$25 million!

But if the YPS could evaluate the purchase of books on a more system-wide scale, they would see that there are many opportunities where books are left over from the previous year at one school but would be needed at a different one, or excess purchases could be reassigned. The problem is exacerbated during the school year, when class sizes change as new students arrive or depart. In anticipation of this common occurrence, schools order an extra amount of books to deal with this contingency.

Without a simple and easy means to "advertise" individual class needs to restock books across the entire school network, the net result is that over 15%, or \$75 million in textbooks in the YPS inventory sit unused during the school year.

If the books could be redeployed and if the “cushion” of extra inventory on a school-by-school basis could be reduced, much of that \$75 million could be saved. Best, the resultant savings could be applied to other needed items, such as PC, lab equipment, or teacher salaries.

### *Increased Efficiency Example*

A large manufacturing company has a laser guided lathe that is located in a plant in Toledo, Ohio. The lathe was purchased for a government project that has run its course. The lathe cost \$4 million when purchased new, but has been depreciated to \$500,000.

A new plant is being opened in Mexico where different items are to be manufactured, but where a similar lathe to complete the manufacturing process is needed.

The Mexican unit does not have sufficient budget resources to purchase a more efficient lathe and will have to use equipment that is less accurate -- resulting in both waste and quality issues that management is willing to accept. However, if the unit could search across the entire company to see if an upgraded piece of equipment were available without outside purchase, then they could increase their productivity and efficiency without increasing their capital cost.

With the proper equipment in place, meeting the demands for higher productivity or increased services can be met with minimal budgetary impact.

## The Enabling Role of the Internet

### *Asset and Resource Reallocation Fits the Internet Model*

Asset and resource reallocation are a perfect fit for the Internet model because of four key factors:

- Global visibility and access. In many cases business or government assets are located in offices throughout the world. Communications to a centralized database are a snap on the web. In asset reallocation, data entry and queries to the centralized database must be available from multiple locations, seamlessly and quickly.
- Centralized data. Like many computerized systems, data can be easily centralized and accessed. This is a plus for a good asset management system, where the value is in centralizing what is available and what is needed is paramount.
- No big install Issues. The ubiquitous nature of the Internet has led to the creation of web systems that are easily activated and hosted either internally or remotely. A web based application can be up and running in a short amount of time and the information can be protected via firewalls and other security measures.
- Easy implementation and promulgation. With a web based system, Internet access is the only prerequisite to accessing the data. As a result, updates, modifications and even added features can be accomplished in one simple process, therefore

software version control is not an issue. This feature is critical in asset reallocation, as the system should be on-line and available at all times.

Any asset reallocation system must also be easy to use and access. The advantage of a web based system is that most employees have had experience in using the Internet. A properly designed system can meet these goals.

## The Solution

### RONASStar

#### *The Business Case for RONASStar*

RONASStar (derived from the accounting term “Return On Net Assets”) was developed from the beginning as a web-based platform for asset reallocation. The system is powerful, logical and easy to use, with an intuitive learning curve. RONASStar enables organizations to list their underutilized or unneeded assets and other resources; (computers, equipment, people, resources, etc.) into a centralized database for the purpose of redeployment within the organization.

The system operates in a manner similar to widely recognized e-commerce systems like eBay® and Amazon.com®. As such, adoption is fast and training can be accomplished quickly. RONASStar has been designed to allow easy product upload, powerful searching capability and point and click asset acquisition. It includes in-depth tracking and reporting of property movement, as well as financial settlement between the acquirer and the original owner (cash, non-cash or credit).

Employees may easily list items for transfer or the products may be uploaded from an electronic file. A built-in search engine allows global visibility and simple detection of the assets in terms of location, site, availability, price, etc. Once located, a conventional e-commerce “purchasing” interface allows products and services to be acquired from other business units with or without cash. This “point and click” acquisition process makes internal procurement simpler and faster and easier than external cash purchases.

In summary, this tool lets an organization easily locate and move assets and other resources from unit to unit while the system tracks and records the financial activity and then prepares the appropriate reports. It is designed to allow the transactions to be uploaded into the organization’s financial database, if required or desired.

#### *Benefits*

In brief, RONASStar offers the following benefits and the metrics with which you can measure these benefits:

- Fast and simple systems launch. Since the product is web-based, there are only a few steps necessary to bring the product on line: 1) determine the “look and feel” with logos and colors, 2) establish whether the current assets will be loaded from an existing database or entered manually via an online entry form, 3) determine who will host the system (you or the GBUCs service provider), and 4) decide on levels of redundancy, security and firewall protection.
- Easy signup and fast hierarchical setup. Once in operation, the user signup and authority is built with simple online form-fills.
- Rapid learning curve. Training is intuitive. The system is logical and recognizable to those who have used the Internet. It is easy to learn for neophytes as well.

- Simple system for loading assets. Assets and resources can be easily loaded or updated via an online entry form or by integration to an existing fixed asset base. If done online, a simple form fill enters all needed information. Items may be loaded and then held from view and transfer by clicking a single button. In no case does the item leave the inventory unless manually deleted (dependent on user rights).
- Powerful search engine. The search engine allows simple category and industry searches (such as “automobiles” or “construction”), or detailed key word or phrase searches.
- Full product description. When the search results are shown, a user may select from a list and see details on the asset and the owner - location, condition, shipping instructions, etc. Pictures are displayed and the system is video enabled.
- “Point and click” asset acquisition. Once selected, a simple click will enable all messaging, transfer information and any financial updates. It uses e-commerce shopping cart logic, so the results will be understood by users.
- Full transaction tracking history. All information on the transaction is stored in the system and may be forwarded to the organization’s financial systems. Other, custom reports can be prepared, as needed.

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