

Idle Asset Optimization™ Provides a Modern Means to Save on Capital Spending and Improve Return-On-Investment

By Roger Gallo, CEO & President, EquipNet Inc.

Much attention has been made during the early 2000's on improving the "supply chain" of companies. Ariba, Commerce One, SAP, I2, Oracle and many others have all seized upon this opportunity and have rolled out numerous product offerings aimed to help companies better manage procurement practices. Today, companies are not only focusing on new procurement but have turned their efforts towards better management of the life cycle of existing equipment.

With increasing pressures on public companies to produce consistent earning gains, many companies are beginning to realize that they are sitting on hoards of potential cash and earnings that are already in their backyard, simply waiting to be found.

Managing the assets of a global manufacturing corporation can be a daunting task, and until recently, few good management tools and services have been available to that end.

After years of decentralization, mergers, plant closings, technology changes, etc., few companies have a truly accurate assessment of the amount of capital equipment that they own, and still less have strategies and processes to maximize the return from these assets.

PLANT LEVEL

For years, at the plant level, companies have been updating machinery, closing down lines, and introducing new production techniques that force the plant to remove, mothball, and scrap existing machinery. Commonly, this equipment remains in a warehouse while it depreciates and rusts, or is sold for pennies on the dollar to a local used equipment dealer who turns around and sells it for 10X - 20X that amount—sometimes to a different plant within the same company!

The reality, of course, is that manufacturing plants are *not* used equipment businesses, and the people who operate those plants are not skilled in equipment disposition.

In addition, the corporate purchasing departments don't have the resources to efficiently manage idle and surplus equipment in their manufacturing facilities. Consequently, what remains is an extremely inefficient system that distracts the plants from their primary function and frustrates the corporate office into ignoring the huge potential value of this idle machinery. Ironically, the very machinery that a company uses to produce its products can potentially contribute millions to its bottom line.

Much of the equipment that is sitting idle in thousands of manufacturing facilities and warehouses all over the globe is in excellent working order. Furthermore, many plants within the same organization can use this idle equipment if they only knew that it existed.

There are various software programs and services in existence today for capturing corporate-wide information on idle equipment and circulating this information to all facilities in order for the idle equipment to be put back to work if such a need exists anywhere in the organization. This, of course, helps reduce the need to purchase new capital equipment.

Purchasing departments in a given company can also access this database of their "free" idle equipment and avoid the unnecessary expense of buying new machinery. Sophisticated, so-called "workflow modules" can help ensure that all equipment transfers are properly authorized and documented. This software is also an effective communication tool—promoting discipline in capital spending while creating an efficient asset management system that contributes meaningfully to the bottom line.

Another use for this database of idle equipment is in the plant design phase. Every time a decision is made to add a production line or build a facility expansion, the design engineer can instantly reference the company-wide database of currently idle equipment. The designer may be able to modify the design based on an existing piece of machinery, saving the company time, by avoiding long delivery cycles, and money, by using existing idle equipment instead of purchasing new.

RUNNING A SURPLUS

While some idle assets will be effectively reused within a corporation using such tools and services, some equipment will clearly be truly surplus to any one corporation's needs.

It makes little sense for each corporate entity to develop its own capability in this area, and there are very significant economies of scale to be gained from providing these types of solutions to whole vertical communities. Hence, it represents a very attractive outsourcing opportunity.

Choosing the right strategy and sales channel for equipment dispositions can result in a two-fold, or greater, increase in financial returns when surplus equipment is sold.

Historically, the common approach was to phone the local equipment dealer and receive a small percentage of fair market value, but today there are several outsourced providers of surplus sales whose know-how and ability to manage the various channels of disposal can add millions of dollars to a company's bottom line each year.

However, choosing the right outsourced solution will require clear objectives, goals and performance metrics. The market has seen the explosion and resulting implosion of "dot-com" solutions promising salvation through technology.

Although such technology will certainly be a significant part of conquering the communication and workflow issues within an organization, the Internet, however, is just an enabler. A real solution requires a combination of traditional services, specialized equipment knowledge, modern marketing, multiple sales channels and state-of-the-art technology.

In addition, assistance in setting up corporate strategies and processes, professional project management, and dedicated execution skills are essential for ultimate success.

Idle Asset Optimization is a specialized field that can nevertheless have major financial consequences for large multinational corporations, especially those in the midst of mergers, acquisitions or restructurings. Additional benefits include improved efficiency, reduced environmental exposure, and complete asset management practices.

When done right, success of an Idle Asset Optimization program is almost immediate, with manufacturers realizing higher returns with the first sale or redeployment of equipment.

Recently, for example, one major global pharmaceutical manufacturer realized a 636-per-cent ROI (*see graphics*) over a twelve-month period—from just ONE facility!

The program that was implemented at this facility evaluated and cataloged all of the equipment in the plant. The analysis of this inventory was then used to make redeployment and sales recommendations.

Another major global manufacturer recently utilized its Idle Asset Optimization Plan at three plants to not only redeploy and sell equipment, but also to realize cost avoidance opportunities such as warehouse consolidation, selling equipment back to the OEMs, or simply donating the equipment.

These are just two small examples of the power of Idle Asset Optimization. Scaling these results across an entire organization clearly has a very significant and immediate financial impact.

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