BizWise Management Services

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Effective Asset Management

Effective asset management is extremely important to business, particularly those in asset intensive industries. The focus of this article is to promote the effective and efficient provision of products and/or services based upon better management of assets involved in the business process.

No matter what the scale of a business is, these principals may be applied to either businesses as a whole or individual services and business units within a business.

Realising Opportunities

Many businesses have an asset base which is extensive and aging and in many circumstances not capable of easy replacement due to limited future income streams and prevailing economic conditions.

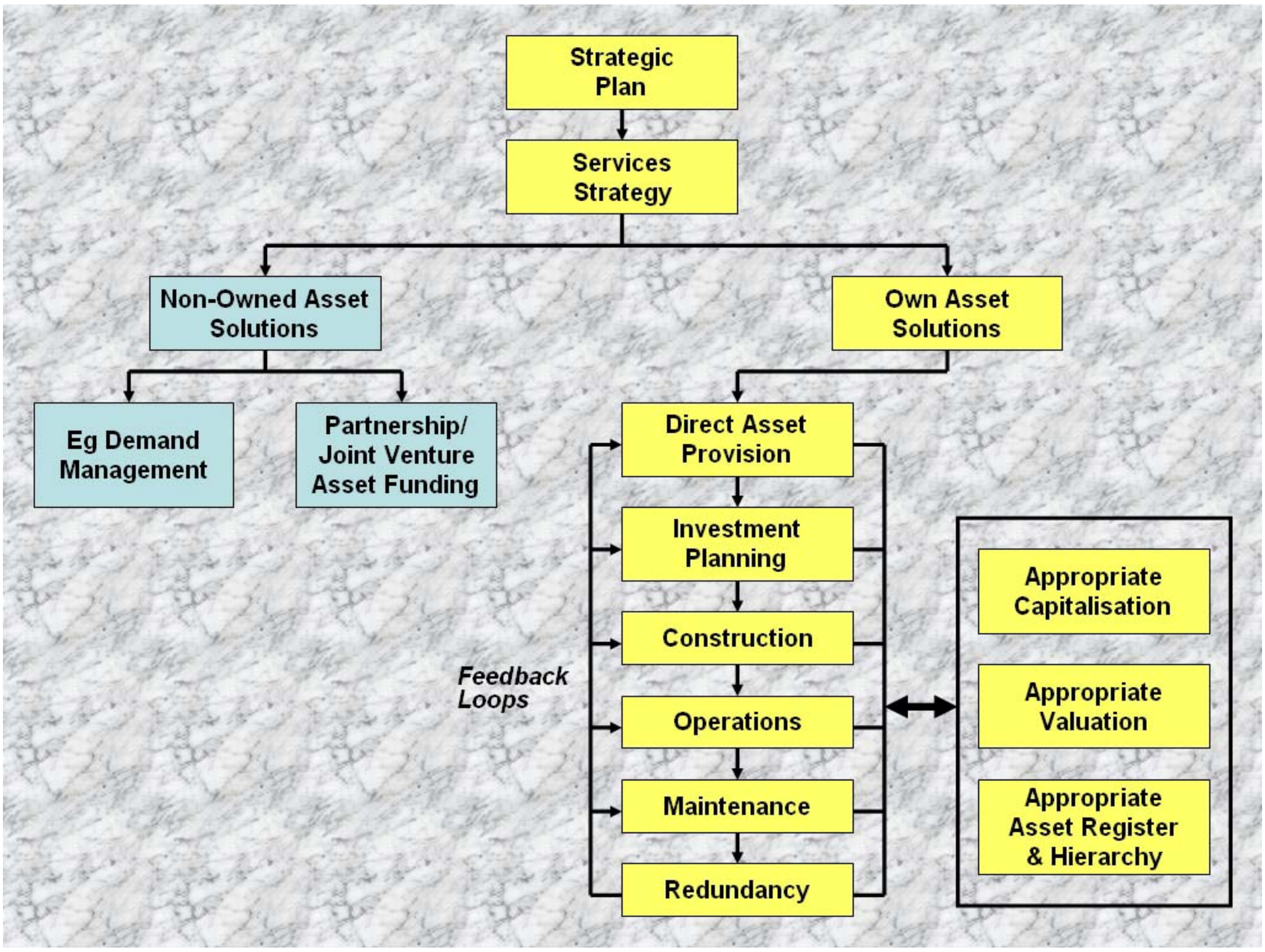
It is therefore essential to consider innovative approaches to a businesses future product and/or service provision circumstances and opportunities.

Knowing What Assets You Have – The Asset Register and Hierarchy

It is a fundamental but often overlooked concept that in order to effectively manage your business and your assets, you need to know what assets you actually have got, where they are, what condition they are in, what is their value for retention or possible sale and what relevance they have to current and future operations.

In order to fulfil these requirements, a comprehensive asset register, suitably classified into a hierarchy of assets, should be maintained to facilitate effective asset management.

The Overall Approach to Asset Management



Determine Your Business Plan and Services Strategy

It is important to remember that your business assets are only a "means to an end". That is, they provide support for the production and provision of your end product or service.

So, one of the most essential steps is to determine your future product and/or service requirements, i.e., where you see your business in the future.

You can then critically examine the relevance of existing and potential new assets required in providing your products and/or services now and in the future.

Explore Alternatives To Direct Asset Provision or Acquisition

In addressing your product and service needs, it is beneficial to explore alternatives to direct asset provision and/or acquisition, such as:

1. Demand management. That is, exerting market influence through such things as education and pricing strategies on customer habits and purchasing practices;

2. Leasing or hiring assets as and when required on a needs basis;

3. The use of private financing through such approaches as Build, Own, Operate and Transfer (BOOT) or similar schemes; and

4. Partnerships and joint ventures.

Value Driven Investment Planning

If you find that you need to invest in assets, make sure to undertake value driven investment planning.

Identify objectives and innovative alternatives, test assumptions, eliminate redundancy, and if necessary defy conventional wisdom.

When you have pruned the proposed asset investment back to its essentials, then undertake the appropriate cost/benefit analysis using discounted cash flow techniques.

Be sure to also adequately consider “externalities” such as environmental and social impacts.

Construction Of Assets

Experience suggests that the big value drivers in preparing for asset construction are to:

1. Strategically assess alternatives;

2. Evaluate different design options; and

3. Test pre-construction details.

Asset Operations

The effective operation of assets involves analysing customer and performance data and altering asset management accordingly. Such alterations could include usage patterns and maintenance practices, for example. Often, business rules and “expert systems” can be built to assist in effective asset management.

Asset Maintenance

There are several asset maintenance strategies available to minimise down-time, such as:

- Preventative maintenance - maintaining the asset in peak condition at all times;
- Diagnostic maintenance - performing asset maintenance when a predetermined set of conditions are met; and
- Reactive maintenance - asset maintenance as and when breakage or stoppage occurs.

Capitalisation And Valuation Of Assets

Assets need to be properly capitalised and valued in order to promote effective economic management and to hold managers accountable for earning required returns on invested capital.

This also helps eliminate the underutilisation of valuable assets and eliminates the purchase of “nice to have” or excessive assets (commonly referred to as “gold plating”) in favour of those actually required.

Often, “depreciated replacement cost” is the most appropriate valuation method and “economic value added” (EVA) is the most appropriate measurement of returns earned.

The EVA method calculates a manager’s ability (or otherwise) to earn returns to shareholders at least equal to or better than the opportunity cost of the capital employed.

Redundancy/Disposal Of Assets

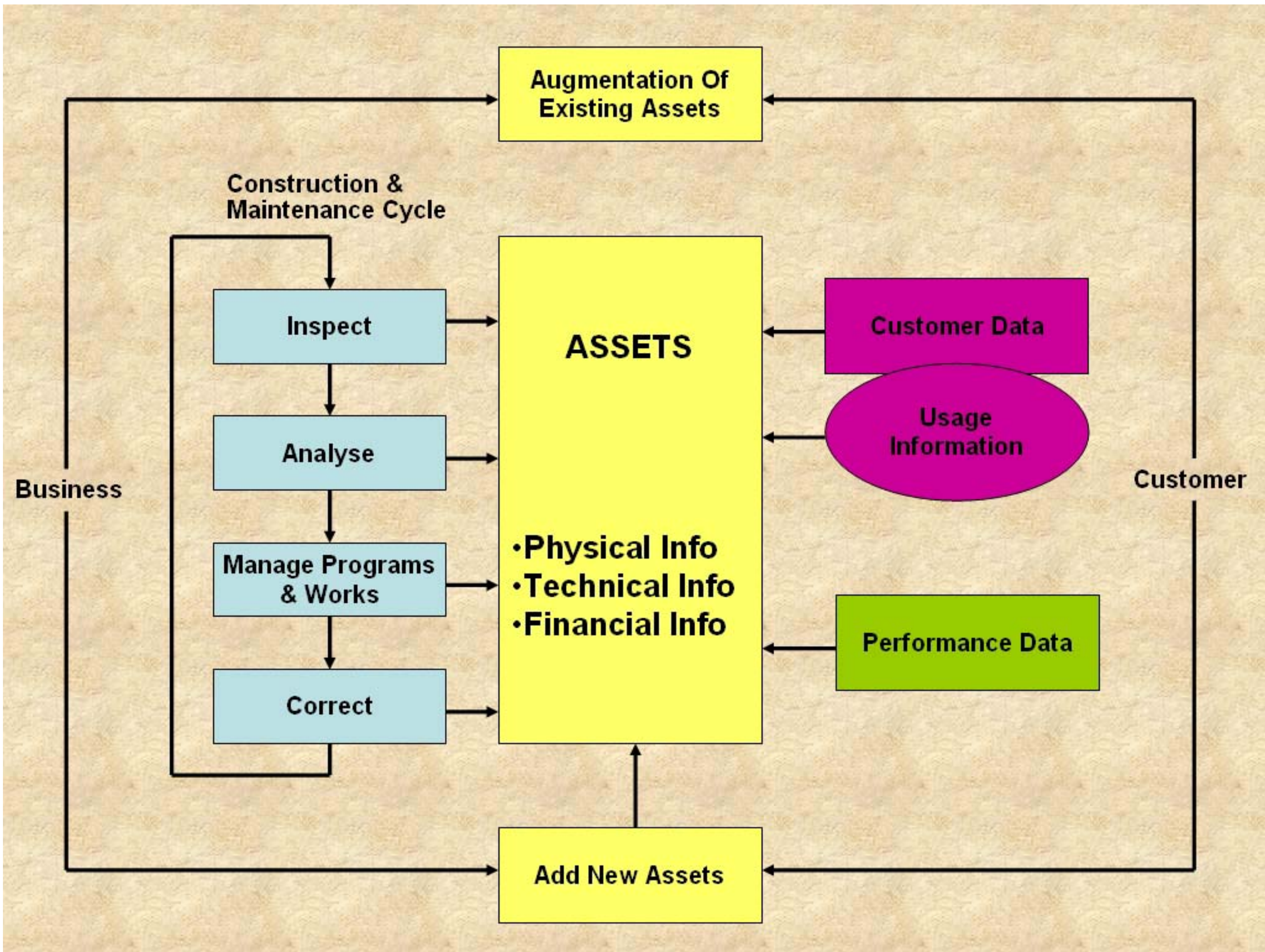
Reviews should be periodically undertaken to identify inappropriate or redundant assets.

Elimination of excess assets can increase the returns on the remaining funds invested, whether those returns be in the form of monetary profit or social benefits.

Asset Management Key Processes

Effective asset management can be broken down into a series of interrelated key processes, utilising views from both the business and customer perspective, to ensure a complete view is maintained.

The key asset management processes are graphically depicted on the following page:



BizWise Management Services

BizWise Management Services has a proven track record in assisting businesses realise their goals by creating value through innovation. Our associates can assist you in your asset management policies and procedures.

If you would like to learn more about effective asset management or would like any other assistance, please do not hesitate to contact us.

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