



ITAM = Savings

Bracing a Business for Recession

Economic indicators are pointing toward difficult times for businesses, but effective asset management can help strengthen a business quickly.

Economic forecasts are increasingly pointing toward recession, a prospect not missed by executive management teams and the boards of many private and public entities who are exploring ways to proactively strengthen their financial positions so that their businesses may ride out the economic downturn.

As a part of a broader fiscal strategy, the move to more accurate and effective asset management can be invigorating to a business, providing essential short-term cashflow benefits, as well as positive longer term advantages with regards to workflow processes, security and disaster management preparation.

How can improved asset management contribute to such a wide area of a business' economic well-being? Because fixed assets are often one of the largest line items on a company's financials, yet they are haphazardly tracked, often with spreadsheets and frequently by multiple units within an organization. Computers, servers and other equipment, for instance, are often managed by the IT department for replacement purposes and by finance for depreciation, with varying levels of accuracy and location awareness. Production-oriented assets, on the other hand, are likely to be tracked by

maintenance managers and finance teams, with similar discrepancies in actual condition and value.

From a purely operational standpoint, having an accurate asset register that shows location, condition and the person responsible can help ensure that assets are available and usable when needed. But how a business manages its assets also has multiple effects on the entity's finances, through the very tangible costs of heightened insurance premiums, property taxes and neglected depreciation. Here are several ways that implementing an automated asset management system can help a business be more fiscally responsible and better able to withstand economic turns.

Insurance Premiums and Claims

Research suggests that up to 20 percent of assets listed on an organization's asset register are no longer in existence. This has a very direct effect on insurance premiums that may be 20 percent higher than they need to be. To make things worse, more than half of asset register items are listed inadequately, without enough identifying details such as serial numbers, barcodes or proof of location. If the organization needs to file a claim, such poor asset descriptions frequently result in challenges by insurance assessors.

Property Taxes

Assets listed on registers but no longer in existence can also have a similar effect on a business' property taxes. These "ghost assets" continue to lurk on various spreadsheets and asset registers, potentially costing tens of thousands of dollars or more per year in unnecessary taxes.

Depreciation

Taking advantage of tax treatments designed to help recoup some of the costs of infrastructure is essential to sound financial management, but it can be a challenge with ever-changing tax law and the need to keep multiple books for state, federal, corporate and other purposes. Add to this the special tax treatments for particular items and organizations and it is nearly impossible to keep appropriate asset registers unless an automated system is used. Without such a system, not only are asset locations, descriptions and values likely to be incorrect, but the company is also likely missing out on strategies that can reduce its tax liabilities.





it. Whether using spreadsheets or tracking software, these asset registers are maintained by multiple staff members, creating inefficient workflow processes that also result in poor asset tracking. For depreciation purposes, the financial management may consolidate groups of assets into a single value, such as \$125,000 for an item listed as “generators.” This may be enough for depreciation, but it is sorely lacking for prudent control and tracking of the assets. Plant management, on the other hand, likely keep more detailed records geared toward maintenance of equipment, with individual generators itemized by type, brand, date-in-service or other factors. A unified asset management system offers a streamlined approach – one asset register – that provides customizable/user-defined dashboards that show each user and department (maintenance, finance, IT, etc.) the information and reporting options they need. It also helps reduce inconsistencies and wasted staff time, helping businesses to run lean.

Advanced Forecasting and Budgeting

Simply rolling over depreciation year-to-year is a blunt instrument and it can give management only a very rough summary of potential data with no allowance for other changes. But when using an automated asset management system, financial directors can produce much more accurate forecasts that can take into account variables such as asset disposals, planned investments and the effects of specific actions on financials and future tax liabilities.

Disaster Preparation

Proper asset management also assists businesses struck by disaster, allowing them to quickly determine asset losses for insurance claims while also enabling them to determine the condition of potentially affected items, perform revaluations or disposals and obtain new assets to replace lost ones. Incorrect or non-specific asset registers can result in painstakingly long hours spent reconstructing and re-auditing asset bases at a time when the business’ resources need to be focused on recovery.

An organization’s fixed assets are often among the biggest line items on its financials, but the assets are too often haphazardly managed. A dedicated asset management system offers multiple methods of decreasing near-term expenditures, which can aid a business looking to strengthen itself in the face of a possible recession. Responsible asset management offers much more than the aforementioned benefits. Providing more accurate financials and forecasting capabilities also gives an organization’s management and shareholders a more realistic overview of the true fiscal health of the enterprise. This, in turn, creates more responsible corporate governance and can increase investor faith.

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This is especially pertinent right now, since the new economic stimulus package that will be sending \$600 checks to individuals also provides businesses with bonus depreciation for capital expenses. Bonus depreciation offers businesses an extra one-year boost in the amount they can deduct on capital expenses. Under this stimulus package, first-year depreciation on capital equipment (purchased in 2008) has been increased to 50 percent of the original purchase cost, with a maximum \$250,000 write-off for companies with up to \$800,000 in annual revenues. The remaining 50 percent will be depreciated over a business’ normal depreciation schedule. The Economic Stimulus Package of 2008 allows for similar bonus depreciation rules to those put in place following September 11, 2001 and in 2004 and 2005.

Disparate Asset Registers

Most companies keep multiple asset logs, depending upon the type of asset and the division of the business that is tracking