

Four Steps to Effective Surplus Asset Management



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Introduction

A surplus capital asset is an asset that is no longer essential to the operation and manufacturing of a particular division, geography, or business of a company.

Most organizations struggle to manage their surplus assets efficiently. This challenge is further compounded when surplus assets are not recognized, identified, or are simply scattered across multiple sites, countries, and continents. Furthermore, with sustainability a key agenda item at the board level, can organizations afford to be wasteful with their assets?

This white paper is a summary of the steps you need to take to better manage your surplus assets.

We're Liquidity Services, asset recovery specialists. So, of course we believe that organizations can get much better at managing their surplus assets. Whether managing the redeployment of assets from one division or geography to another or simply helping organizations sell them to maximize return, we help you dispose of your assets appropriately. We've helped thousands of organizations from automotive to biopharmaceutical companies benefit from surplus asset management, valuation, and sales solutions that meet their unique needs.

We put together this guide to help you make more informed decisions about your asset recovery program.

Step 1: Discovery

It's universally accepted that organizations can do much more to identify assets that they no longer need, disposing of them more quickly and effectively. Through better management of surplus asset discovery, companies can release significant sums that can be reinvested elsewhere, such as R&D and innovation.

To recover the investment in your asset, the first and logical step is to identify any and all surplus assets. That means you need to be able to know what surplus exists, locate it, and identify what the asset is and catalog it.

To do this will require you to reach out to groups across the organization such as engineering, warehousing, maintenance, purchasing, and IT.

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Step 2: Redeploy or Sell?

To answer that question, you first need to have a holistic understanding of your company's manufacturing, CAPEX, cash flow, and planning cycles; or at least involve the people that have a vested interest. Whether you are in an investment or divestment cycle will help frame the answer to the above question. Organizations are always looking for savings and efficiencies. Identifying your surplus assets and establishing need requirements can be a good way to find savings and gain efficiency at the same time.

Questions to Consider

- What now? How can I leverage this to make an impact?
- Can these assets be re-used within my organization?
- Do these assets need to be "held" for a specific purpose or should they be disposed?
- Is there a value that I can recover, and what should that be?
- What are the implications of me not doing anything?

Once you realize that there is a need to do "something" with identified surplus capital assets, then it's time to understand how to let others internally and externally know about them.

The marketability of an asset is dependent on the specifications available. The more data an asset has the more appealing it is to the end user or buyer. After all, its usability is a deciding factor in any purchasing decision both internally and externally. Therefore the process of identifying and cataloguing assets is vitally important as it is the foundation for an efficient process. The process of cataloging can be difficult and to make it easier in the long run, we recommend that you standardize the process and information.

The cataloging process will entail pulling together all records relating to that asset, including accounting and maintenance records. It's essential that you use a template to ensure standardized naming and descriptions.

Questions to Consider

- What information do my colleagues in other locations need to make a "purchase" or "transfer" decision?
- How can the integrity of the information remain consistent?

Step 3: Management

Having a digital asset management system in place will provide you with enterprise-wide visibility of your surplus assets. It is also an easy and streamlined way of making the decision to redeploy, sell, donate or scrap the item(s). And it's a great place to hold all the instructions, spare parts inventories, and maintenance records that are associated with each asset.

Traditionally enterprises have bought, built, and maintained their own IT infrastructure to support their materials management programs. We would recommend adopting an asset management tool using Software as a Service (SaaS).

Questions to Consider

- Who will "own" the process?
- Do I have the in-house resources to conduct this properly?
- Why not try outsourcing the whole solution to save time?
- How can we better control the information and make better decisions moving forward?

Having a digital asset management system in place will provide you with enterprise-wide visibility of your surplus assets



3.1 Redeploy your assets

The aim of asset redeployment is to increase your return on investment. This is achieved by taking idle or underutilized goods and moving them to a more profitable use elsewhere within the organization. From a cost perspective, redeployment is the most efficient and, in many cases, the most cost effective use of an asset.

Regardless of what asset management system you use, the key is to ensure that there are consistent criteria for how assets are to be redeployed. For example, the criteria could be the age of the asset, its original purchase value, or the geographic location in which it sits.

You then need to think about whether it makes sense to redeploy the asset. If it's a high value asset and it can maintain its use over a long period, redeploy it. Apply the same thinking if you have multiples of a high-value item.

Within your asset management platform, all items available for redeployment are listed as such and this information is made available for all internal stakeholders. This goes to emphasize the importance of a good asset management platform and a good cataloging process.

However, keep in mind that as a rule of thumb, you should never spend more on shipping and handling than the total cost of the item.

Questions to Consider

- How do I get buy-in from my organization to make this effective?
- How should we communicate this new initiative and its benefits?
- Who gets the benefit: central P&L or local plant?

3.2 Value your assets

Accurate asset valuation isn't just about assisting disposal. It helps companies raise capital for growth, and supports the organization, investors, lenders and advisers to make informed decisions on underlying assets, such as debtors, inventory, and machinery.

Markets change all the time. Providing a realistic price, calculated with real market values in mind by an expert provider, is essential. Whenever you need to transfer equipment across borders, especially to China, the authorities usually require a formal valuation to help quantify the value of the asset. Sometimes net book value is sufficient, often it is not.

Understanding what an asset is worth on the secondary market will help with better decision making – both with redeploying assets internally and with trying to capitalize them on the secondary market.

Questions to Consider

- Do I know what my surplus assets are worth?
- What unit of value do I need to use?
- How can I capitalize on my "not needed" assets and add back to my business?
- What are the market trends for this equipment?
- How buoyant is the secondary market?

There are lots of questions to consider, and it can be daunting. An asset management partner can help establish appropriate benchmarks and values to make life a little easier in the world of capital asset management.

3.3 Sell your assets

Now that you have all your assets registered within your digital asset management platform, a key decision that your company has to make is how long should an asset sit on the redeploy list before it is moved to disposition status.

For example, in our experience biopharmaceuticals companies typically apply a best practice 30 day timeframe. Once this window expires, the asset is automatically moved to disposition and it is either sold, donated, or scrapped.

Of course the timeframe will vary from industry to industry and you need to select a timeframe that best suits your organization. With a robust system in place, we have seen many clients achieve great success on windows as small as 14 days.

However you decide on the most appropriate channel for the disposal of your asset, working with a trusted asset recovery provider will help you maximize your recovery value and time. Working with a partner enables you to tap into an established and verified base of global buyers.

Questions to Consider

- Are my current disposal channels garnering the best results?
- Does my organization track surplus asset sales? Should it?
- Are local solutions better than a consistent global approach?
- Can someone do this for me? Do I have the time to sell these “unimportant” assets?
- How many “unimportant” assets does it take for this to be “significantly important” and impactful to my company?
- How much cash can we generate with a centralized surplus asset management program?

Step 4: Measure and Quantify

For any asset management program to be successful it needs to be measured. Many corporate clients with investment recovery programs typically operate to a vendor scorecard of some sort. Those that don't usually have some simple targets they work towards. Whichever methodology your organization subscribes to, some of the common KPIs you should be measuring are:

- Cash return: net cash return from idle or surplus asset sales
- CAPEX savings usually tracked on internally redeployed assets
- The volume of equipment going into the program (by quarter, annually)
- CO2 (carbon) offset from the redeployment and sales of idle or surplus assets – sustainability metric

The important point is to ensure that a standard and consistent measurement for these programs is in place. Otherwise, understanding the potential impact and overall value can be missed.

Questions to Consider

- What does my management want to see from this program?
- Data is king ... how can I leverage a program for further efficiency gains and continuous improvement?
- Do I have a full understanding of what my company does globally with surplus assets?
- How can I get that understanding? How can I make it bigger, faster, better?
- How can this add to our overall CSR and sustainability scorecard?

Case Study

BAE Systems Implements Successful Asset Management Program



See how BAE Systems, a leading aerospace and defense company, maximized value across its reverse supply chain through a strategic surplus asset management program.

Challenge

BAE Systems, a top aerospace and advanced defense company, was looking for a single service provider who could provide a surplus asset management program across all of its 55 locations within the United Kingdom. The management team desired the development of a program to improve surplus asset management, expanding the number of assets being transferred internally to maximize use, while increasing the cash return to its respective locations when assets were sold. Previous experiences with third-party service providers and its surplus assets had been less than favorable due to lack of reporting, inaccurate data, and lack of adherence to deadlines.

Solution

The company went through an extensive RFP process to select a trusted provider and Liquidity Services was chosen at the end of the comprehensive nine-month process. A critical engagement point with the vendor was counsel on the value of assets and disposition strategy, including internal redeployment and external sales. Liquidity Services' solution included the assignment of a dedicated account manager charged with working at both a corporate and site level for the client. In addition, the account team was proactive in developing processes that enabled the full team, including the client, to easily track all opportunities

and projects and ensure all projects were executed on time and on budget. The client was provided access to Liquidity Services' proprietary web-based asset management solution, AssetZone®, which provides an accessible system for decision-making around assets across multiple locations in a global company.

Results

The comprehensive process paired with regular reporting by the Liquidity Services' team provided peace of mind to the client, meeting its high expectations for performance. The surplus asset management program through AssetZone gave BAE Systems a simple transparent process which could easily be rolled out to all locations, providing greater visibility and control over their surplus assets. As a result, fewer assets were scrapped and a far greater number of assets were either internally transferred or sold externally, extending the life of assets and recovering a higher value through online auctions. A total of 45 disposition projects were executed over the term of the contract and gross asset sales exceeded £1,875,000 (\$2,908,875*) for 1,239 total assets. These projects were so effective, that the client extended the contract for an additional two-year term to continue the pace of success.

Conclusion

By actively pursuing opportunities to innovate their surplus asset management programs, forward-thinking companies can extract unexpected, hidden value. Additionally, through the implementation of intelligent and flexible asset management systems that allow an organization to catalog, track, and manage assets, decision-making for surplus and idle assets is grounded in solid data. When it either doesn't make financial or useful sense to redeploy an asset to another company location, selling your assets through tapping into an established and verified base of global buyers extends the useful life of assets and creates new working capital streams that drive value.

About Liquidity Services

[Liquidity Services](#) (NASDAQ: LQDT) employs innovative e-commerce marketplace solutions to manage, value, and sell inventory and equipment for business and government clients. We operate a network of leading e-commerce marketplaces that enable buyers and sellers to transact in an efficient, automated environment offering over 500 product categories. Our superior service, unmatched scale, and ability to [deliver results](#) enable us to forge trusted, long-term relationships with over 10,000 clients worldwide. With nearly \$7 billion in completed transactions, and 3 million buyers in almost 200 countries and territories, we are the proven leader in delivering [smart commerce solutions](#). Visit us at [LiquidityServices.com](https://www.LiquidityServices.com).