

AMQ
International's

STRATEGIC # 331 ASSET MANAGEMENT

December 12th 2011 Stories with a Message



This is the last issue for the 2011. We are now on a break until January 9th. For all of you who are holding down the graveyard shift in your organisations this holiday break and who may be able to take advantage of peace and quiet (?) to reflect on where you have been and where you are going - this is for you!

Here is a selection of some of my favourite 'stories with a message'. If these inspire you to remember stories of your own - or to invent new ideas - please share them with me, and join that special group of asset managers who use their experience and learning to help others through "Strategic Asset Management".

Consider these stories my seasonal 'present'

What the taxi driver knows - but your management may not.

The best assets are other people's assets.

Statistics are important - but it's perceptions that count.

Service needs to be both beneficial and sustainable

Necessity is the mother of invention

Could you use a Corporate Advocate?

My thanks to all those who have contributed their experience and learning - and to all of you who strive each day to do a better job!

*Have a great holiday. See you in 2012
Penny*

Dr Penny Burns,
Editor
AMQ International
08 8359 0559



What the taxi driver knows - but your management may not

It was a hot day and I took a taxi for a trip where normally I would have walked. I asked my taxi driver if hot days were good for business. 'Not really', he answered, 'we may get more trips but we have to run the air-conditioner all day and that costs more in petrol and is not good for my engine which often seizes up because of the persistent load.'

And there it was in a nutshell! - **instinctively that driver was balancing extra revenue against extra costs, not only recurrent but also capital costs.**

How many of your managements do the same? How many of them realise that the 'economic lives' of assets (the ones that are accepted in your books of account and on which depreciation is based) are conditional on

(a) the maintenance they receive, and

(b) the use to which they are put?

Or do they cut maintenance to make short term savings - *and omit to increase depreciation* resulting from the shortened asset lives?

Do you know what level of maintenance is built into the asset lives you are using? And how much the asset lives will be shortened if a lower level of maintenance were to apply? Do you report these figures up the line?

Again, do they increase the wear and tear on the assets and fail to take this into account in their allowances for operations and maintenance expenses?

Do you know what level of usage is built into the current estimate of asset lives? (If not, a useful estimate might be the general level of usage at the time that the asset was acquired, as whereas projected incomes often build in growth, projected costs hardly ever do!) How does increased traffic affect your costs? For example, extended hours for facilities put extra loads on HVAC, more visitors affect wear and tear not only on carpets but other facilities. How can you illustrate these for your board or management?

The Best Assets are Other People's Assets

It used to be said that the 'best cigarettes are other people's'; the same is true of assets, and for the same reason. They are cheaper!



Just after amalgamation when the council was coming to terms with the fact that two and a half councils had now been rolled into one (along with two and a half different asset recording and management systems!) the newly appointed asset manager made what turned out to be a game-changing presentation to the council members.

He showed the members a picture of a swimming pool. The sun was shining. The water was blue. Happy children were jumping in and out of the pool. "This is our swimming pool", he said, "We have full financial responsibility for this. We have to manage and operate it. We are legally responsible if anything goes wrong. We have to manage the licences, occupational health and safety, and renewal planning. We have to pay for all pool staff, chemicals, and other operational costs and planning costs. If anything breaks we need to fix it - quickly! We face not only capital risks but also demand risks. If community demand should decline, we have to cope."

He then showed them another picture of a swimming pool. Like the first, the sun was shining, the water blue, and happy children were laughing and splashing. "This is not our pool, he said, although it is in our council area. It is owned by the Scout movement and we provide operational support. We have a regular financial commitment, but no problem with licences, occupational health and safety - and no emergency planning for breakdowns and repairs."

And finally he showed them a third swimming pool. Like the first two, this was a happy, sun shining, filled with happy children, picture. “This is not our pool”, he said, “and there are no costs at all to the community at large from this pool, it is a privately owned pool. Pool users pay, just as they do at our pool, but the community does not subsidise them in any way. We don’t have to use our resources in management, planning or operations.

After the Asset Manager had done this with a few other assets, the council members were not slow to realise the advantages of providing service - with other people’s assets!

Is this something you could try?

What other ways are there of separating the notion of service from the notion of acquiring assets?



**Statistics are important
- but it's perceptions that count.**

Today the pressure is on to measure and track our performance with KPIs, but it is important that we measure the right things.

I had just joined the water agency in South Australia as a policy analyst, when a complete stranger turned up, not at my office but at my home, and presented me with a dirty scrap of t-shirt material. “There”, he said, “that’s what happens when I put that under my tap. What are you going to do about it?”



I was mystified how he knew where I worked, and even more mystified about what I was expected to do.

A month later there he was again, with another piece of muddy t-shirt. This time I decided to find out from our water quality section just what was going on. It turned out that as most of our water comes from the River Murray and we are at the tail end of the river, there was a great deal of sediment that was carried along with the water. The practice at that time was to thoroughly flush out the pipes once a month to keep the water at a good quality. After flushing, the water was relatively clear and free of sediment, but for those few hours the water flowed like gravy!

Now, the authority's water statistics told the engineers that they provided relatively clear water 99.7% of the time, which was held to be a pretty good service. But anyone who put through a load of white washing at the time of the flushing probably thought it an exceedingly poor service. Who was right?

After speaking with the water quality team about my visits from the t-shirt man, they decided that it would be a good thing to at least let people know about the flushing program and when it was going to take place so that they could avoid using the taps at that time.

Later, they were able to find ways of avoiding the flushing problems and still provide a reasonably good quality of water.

But neither of these two actions were taken until the water quality team thought about the problem from the perspective of the service user! While they thought only in terms of water supply, they thought they were doing a good job. Only thinking in terms of the service user led to improvements!

If the community perceive that you are providing a poor service, you can go on the defensive - or you can accept the fact that service is all 'in the eyes of the user'.

It's not what you do, but the what you are seen to be doing, that counts.

“Customer Value is the gap between customer's perceptions of performance and their expectations”
Sigrid Pfaffle. Business Decision Analysis.

Service needs to be both beneficial and sustainable.

Focussing asset management on service delivery means knowing what the service really should be - and sometimes that is not so easy.



The sheltered workshop provided work for people with disabilities but, as its income had failed to cover its costs, it had been declared bankrupt and was facing closure. An administrator had been called in.

The first thing the administrator did was to examine the books to see where all the money was going and it was not difficult to see that a major expense of the workshop was the vehicle fleet used to bring the workers to the workshop of a morning and take them home again in the afternoon.

“Why are you doing this,” he asked, “when in your mission statement, your role is to help your workers to be able to be part of the community and to develop the skills they need to function independently?”

He organised for a bus stop to be placed outside the workshop and each worker was helped to negotiate the bus route from their home to the workshop and back again.

The workers learnt a valuable tool to help them act more independently within their community and the workshop cleared a major cost and was able, with some other fine tuning, to become financial again.

A double win. Service Up and Costs Down. And the workshop is saved from bankruptcy to continue its work.

What opportunities are there for improved and more sustainable service in your organisation? Even if what you are doing is well received by the recipients (as the fleet service was!) it may still not be in either their short term or their long term interests.

Necessity if the mother of invention

When the 'More Money' solution fails - try something else!

How many times do we grumble when our 'first solution' (generally a 'more money' solution) is rejected? Take heart – there is quite often a better solution around the corner. It just requires a little thought – and an integrated approach.



The Situation

There are two methods of removing stalks and bits of grapeskin from wine. The old fashioned method, with which management was comfortable, was to use settling tanks. The newer centrifuge method however was quicker and had been in use for a number of years but always with the idea that, if necessary, it could revert to the older settling tank method. What no-one had noticed was over the years the size of the vintage had steadily grown – it was now too large for the old settling tank method to manage with the tanks available, which made the winery in effect completely dependent for its production on the efficient running of the centrifuge.

Therein lay the problem for the centrifuge had a habit of "throwing" its bearings about "every other vintage". The last time it happened, it took about 2 weeks to get these specialized and expensive bearings from Europe. If this happened again we would be unable to handle the amount of grape and there would be a shortage of "bubbly" by the following Xmas.

Solution?

We put a proposal to Head Office that we hold a set of these bearings on site. This proposal was rejected. (But, curiously, we were allowed to order them if the bearings did fail – wait the two weeks, and lose production!)

The Challenge

To assure the winery's ability to handle the tonnage of grape and therefore protect the marketing arm from product shortage.

The Action

If we could not hold a spare set of bearings, maybe somebody else could?
We rang our local agent to ask how many of these centrifuges there were in the country and how common was this bearing fault. "Not many, not often" was the reply. Nevertheless we suggested that they might hold a set or two of these bearings here in Australia and they agreed. Furthermore, the storage site would be in our nearest capital city. We then devised a "break glass - turn key" approach whereby, for a premium, they would immediately courier the bearings to a halfway point upon a call from us.

The Result

Soon into the vintage the centrifuge threw its bearings - at 4 pm on a Friday afternoon. Realizing that a courier would be impossible the local supply company manager personally brought them to the agreed spot. Bearings and paperwork were swapped and our man headed back whilst the maintenance crew were stripping the unit. The centrifuge was back on line in 6 hours - and stayed on line for the whole vintage. And they never did charge the agreed premium!

The Learning

- Good suppliers can work minor miracles for you - if you involve them as an essential part of your business.
- Planning ahead, trying to predict problems before they happened, and thinking through possible solutions – really pays. (“What if” or “Risk” analysis in action)
- Without Head Office’s rejection we would never have found this more elegant solution.

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Who can you co-operate with to your advantage? Suppliers? Customers? Community? Competitors?



I have always been impressed by the work reported here:

**Could you use a
Corporate Advocate.**

New Capital Expenditure proposals are typically initiated within a small section of your organisation. This section will see clearly the benefits for its own work but the wider client or organisational benefits may not be so clearly seen - and more especially the wider client or organisational costs may not be recognised either.

Some agencies have adopted the practice of appointing a project sponsor - an experienced, senior member of staff, to 'smooth the way' for the project development. Teams often view for the most powerful sponsor because they know that he will do battle for them when it comes to presentations before the executive committee.

But who does battle on behalf of the corporation itself? Who checks the assumptions for relevance, figures for accuracy, or questions the analytical rigour and ensures that the the section's wishes reflect the corporate goals? The sad answer is often "Nobody!" The executive committee are generally too busy and, as we know, when it is everybody's business, it ends up being nobody's business. And it is only after the project has been implemented that the problems are discovered.

This problem was recognised by the Finance Officer of a large electricity authority and his response was to institute the role of a "corporate 'devil's advocate'" The authority decided that all capital projects over \$500,000 were to be audited by the Corporate Finance Department to establish

- (a) that the analysis was up to scratch and would withstand critical external evaluation and
- (b) that the project objectives were consistent with the corporate objectives.

Corporate Finance had to sign off on this. (The adequacy of the data, being dependent on specialist electrical engineering expertise, had to be signed off and attested to by the business unit making the proposal.)

To make this system work required a bit of preparation! As long as corporate planning was used as a backstop in the preparation of the proposals, it was unworkable. So a staff training program was implemented targeted at the 'top 100 key players' in the field. Evaluation techniques were taught to middle level engineers (who are expected to take the strategic view), to technical officers and to business unit accountants. It was found that economic principles were more easily understood by those with a professional background in accounting or engineering.

The Senior Economist acted as an advisor to those business units preparing evaluations but he did not carry them out for them. To do so would have presented a conflict with his corporate audit function. He was careful to avoid the trap as acting as a lobbyist.

Devolving the task of evaluation to field officers greatly improved their understanding of corporate goals and freed up Corporate Finance to do their corporate audit role.

So well was this done that in a state wide audit of investment practices some years later the electricity authority was the only one to have a transparent and accountable investment system, winning praise from the audit commission team.

Is a Corporate Advocate a system that you could adopt within your organisation?

**How do you see the
Challenges and Opportunities
we face in 2012?**

Over the summer break I hope to be able to reach as many of you as I can to determine our agenda for 2012. Your ideas can determine what we research and what we publish.

Please feel free to write to me any time - or, ring me on 08 8359 0559 or you can try me on Skype - my name is JillPenelope.

I would very much like to hear from you.