


# THE CFO AND REDEPLOYMENT: MAXIMIZING ASSET ROI

By Paul Wengert, CMIRF. Reprinted from ASSET 2.0, Vol. 2, 2008



It is widely acknowledged that companies achieve the highest returns from surplus assets when they can be reused within the organization, avoiding new capital expenditures. Knowing that redeployment maximizes the ROI of surplus assets—what can the Investment Recovery professional and the Chief Financial Officer (CFO) do to help? There are a number of obstacles that impede the redeployment effort—and the Investment Recovery department plays a major role in removing those obstacles—but we will focus mainly on the role that the CFO can and should play in fostering maximum redeployment of assets, and therefore, improved ROI.

## CFOs Unhappy With Redeployment Efforts

In 2000, the CFO Enterprise Research Services Group conducted a survey of 253 CFO's and their views of their surplus asset management programs. The results were pretty astounding: 77% were dissatisfied with their companies ability to redeploy surplus assets and 80% were dissatisfied with their companies ability to track assets and or generate income from the disposal of assets!

This high level of dissatisfaction presents the IR professional with an opportunity to help solve a problem recognized by CFO's. The Investment Recovery Association's ongoing Benchmarking studies show that redeployments represent a significant value-added service of the IR function; an average of 35% of the Investment Recovery's added value (\$4.5 million per year from the companies responding to the Benchmark survey) results from redeployment efforts.

## Obstacles to Redeployment

Corporations routinely repair assets for the purpose of reuse. However, for many, the suggestion that excess or surplus equipment, repaired or not, from another part of the company should be used in lieu of buying new is strongly resisted. Lost to

many in the desire for "new" is not only the fact that all equipment currently in use is used (!) but also that the so-called used or already owned assets were originally purchased to specific company specifications. If serviceable, these are valuable assets that have not realized their maximum potential Return on Investment (ROI).

### **The CFO can aid in overcoming the traditional obstacles to redeployment of assets by:**

- Ensuring that the Investment Recovery function is efficiently identifying, cataloging and communicating the existence of surplus assets throughout the entire organization.
- Obtaining the active (not tacit!) support of other senior managers and directors for the reuse of surplus assets.
- Publicly recognizing the financial benefits to the organization that arise from redeployment.
- Working to ensure that the financial issues of depreciation, refurbishing, equipment moving and installation are handled in an equitable manner for all departments, so that future redeployment efforts aren't sabotaged by memories of previous bad experiences.

## CFO's Role in Optimizing the ROI on Assets

Complying with the requirements of Sarbanes–Oxley ("SOX") and FASB 143 / FIN 47 is a responsibility of the senior management of any company but is clearly within the purview of the CFO. Ensuring a viable investment recovery program that promotes and expands the reutilization of surplus assets improves the ROI in those assets, reduces asset acquisition costs and provides a process to comply with SOX and FASB requirements.

Redeployment is sound financial management of resources and, therefore, good financial stewardship and good business. The CFO can provide the key impetus for the permanent integration of a surplus asset reuse ("redeployment") business process by:

- Making the case for redeployment at the highest management levels. This can be helped significantly by recordkeeping and regular reporting by the IR department.
- Providing incentives and recognition for managers and departments to utilize surplus as a "first choice option," whenever possible.
- Ensuring that accounting policies provide an incentive to managers to utilize surplus.
- Supporting procurement policies that review internal existing assets prior to the purchase of new.
- Provide for adequate funding for Investment Recovery programs that help to properly identify, catalog and

## Questions the CFO should be asking and IR Managers Helping to Answer.

1. Is Investment Recovery tracking and measuring the volume and value of the redeployment program? If not, why not? What information should be tracked that would be meaningful to management?
2. Is Investment Recovery involved in promoting asset redeployment? If not, why not? Are there limiting factors that need to be addressed so that redeployment is viewed as part of the materials management responsibilities of all operating managers?



3. Are we recapitalizing (through surplus asset sales) equipment and inventory assets that cannot be redeployed? If not, are we recovering only scrap value? What is the potential of value (cost savings from redeployment and assets sales) to our company?

4. How long do we retain non-revenue producing inventories and equipment? What are the "costs" associated with holding on to excess/surplus inventories and equipment? Hint: Inventory Carrying Costs range from 13% to 47%, with a median of 30% PER YEAR! (See article on Inventory Carrying Costs in a future Asset 2.0).

## In Conclusion.

The CFO in most organizations is a prime mover in the company's effort to reduce costs and increase ROI on assets—both operational and surplus. As such, Investment Recovery Managers and the Chief Financial Managers have common interests and common goals. According to the most recent CAPS Benchmark research survey, the great majority of investment recovery departments report directly to Purchasing or departments other than Finance, so awareness of the value of surplus asset redeployment (and the value of Investment Recovery in general) on the part of the CFO is most likely a challenge for IR. But regardless of the challenges, working together to break down internal obstacles and facilitating redeployment improves the overall profitability of every company that manages to do so successfully.