

Value Based Asset Management-

Documented Evidence of Property Management Value

Part 1: Program Overview & Summary

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Objective

To change the ITT traditional asset management culture from controlling assets to managing them. To develop and implement an effective asset management process that will:

- Increase asset utilization by 200%
- Reduce total costs by 50%
- Reduce project cycle time by 10%
- Improve human resource

utilization redirected to real value added effort

The asset management process in place in 2002 was adding excess cost to the company and affecting the company's profitability on a dollar-for-dollar basis. Capital assets and the cost of capital put a burden on our balance sheet, and the cost of ownership of the assets we acquire add cost to the income statement.

The Value Based Asset Management (VBAM) project was designed to improve asset utilization so that we could make corresponding reductions to capital and the cost of managing the company's resources.

Introduction

Traditionally, the ITT investment in assets (capital & expense) was focused on acquiring assets to support specific contractual

obligations or supporting business infrastructure. When acquired, these assets have been controlled but not managed. Assets were controlled by departments and programs with no focus on the total objectives of the company. Departments and programs had treated them as their exclusive property and had kept assets to ensure their individual success while expanding demand for additional capital investment to support new requirements while existing assets may not have been utilized.

The practices put significant pressure on the funds available for the purchase of capital assets. New programs had no visibility to excess or idle assets and required new purchases. Capital investment was directed at specific asset purchases to meet limited needs and did not look at combining current and future demands to leverage discretionary funds. Additionally, when capital funding was not available, departments and programs would often rent or lease assets in order to meet schedules. This created additional cost to the operation without any corresponding equity from the money spent.

The organizations with responsibility to acquire control and dispose of assets worked independently, maintained individual databases and did not share data or information to support the efficient use of the company's investment. This created extensive overlap and duplication of resource requirements, investment in record system databases, data, data entry, and the IT resources necessary to support the proliferation of data systems. These systems provided the data and information necessary to run their organizations but provided little or no information to the users. Because there was no process

integration or control, processes were duplicated and process improvement was not identified or pursued as that did not serve individual organizational interests.

In addition, each organization charged with managing assets had established procedures and processes that required constant updates. Organizations had established individual requirements which caused conflicting direction to the workforce and put the division at risk during compliance reviews conducted by government auditors and customers.

Finance, Property Management, Operations and Engineering teamed together to implement the Value Based Asset Management (VBAM) program and have continued to work as a team implementing continuous improvement to the process. Through 2007 the Value Based Asset Management (VBAM) program has contributed \$21,658,242 in cost savings/cost avoidance to ITT Communication Systems.

Project Overview

In 2002, ITT CS implemented a program to change the culture of controlling assets to a proactive program that manages company and customer assets. Implementation required a change in the culture of the control functions and user community. Tools needed to be available to the users to obtain their support and process improvements. Cost benefits were required to change the organizational culture. When the tools were available and cost savings clearly identified functional organizations and the user community worked in a cooperative team effort to improve overall performance with reduced cost.

This program included three major phases with ongoing process

improvement objectives so that the implementation would result in maximum use of capital funding, improved customer service and significantly reduce cost.

Phase I: Streamlining

Phase 1 started in 2002 and was designed to work with the control functions to streamline the control processes. We reduced the number of record systems, reduced the number of procedures used to manage assets and implemented process improvements to reduce the cost of managing assets.

We reduced the number of record systems being managed which eliminated duplication and overlap in data entry, record keeping and IT costs while providing more consistent information to users and customers. The work force was provided basic tools to be more productive. Process improvements were accomplished within the control functions driving significant cost savings.

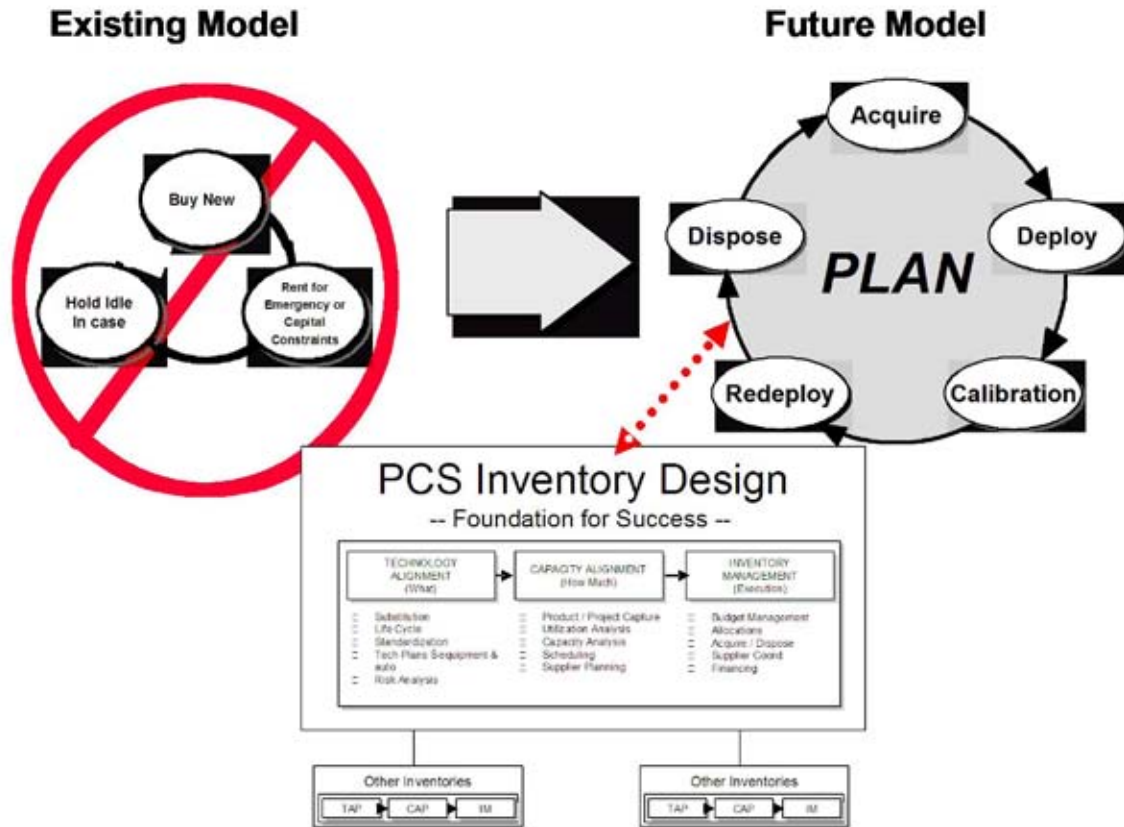
In addition, alliances were established with other ITT defense divisions to standardize the asset record system database and functionality so that we could achieve economies of scale, reduce development cost and implement an asset re-utilization program between business units.

Continuous improvement has been a hallmark of the program as new initiatives have been added each year and some of the early objectives have been revisited to gain more improvement and cost savings.

Phase II: Standardization and Systems Integration

Phase 2 of the project utilized a corporate and customer physical inventory requirement to validate the base line and integrate the

The Solution...A New Approach



databases. This allowed us to further reduce the number of asset record systems and implement a single integrated database with common nomenclature and descriptions.

Multiple asset numbering systems and identification methodologies were consolidated into a single numbering system with a standardized bar code configuration for all assets. Critical data element fields were standardized to provide users with better tools to identify and locate assets needed to support job requirements. A standard system, consistent information and a normalized data stream were required to obtain user support.

Completing the objective achieved improved asset utilization with reduced calibration and

maintenance cost, dramatically reduced capital demand, reduced program cost and generated lower overhead cost.

During 2008 and 2009 ITT CS will be implementing the AssetSmart database, a commercial off the shelf software package that will fully integrate all asset record systems. This will eliminate all the system integration maintenance now being experienced and further add to our cost savings from this phase of the program.

AssetSmart has been recognized as the Defense standard and four major divisions are using AssetSmart or are in the process of implementing the system. While all divisions are not implementing all the modules necessary to fully implement a Value

Based Asset Management (VBAM) program with AssetSmart, the tools are available to all the participating divisions.

Phase 3: Maximizing Asset Utilization and Driving Cost Down

Phase 3 was initiated in May 2005 and implemented a blueprint for action that has resulted in dramatic improvement in asset utilization. The utilization improvement has driven a significant reduction in the capital investment required to run the business with corresponding reductions in the cost of ownership. These reductions came from "intelligent acquisition" acquiring assets based on global business strategies vs. specific

program requirements. Other cost reductions have come from reduced taxes, reduced insurance costs, reduced calibration and maintenance costs as well as the square footage requirements necessary for infrastructure support.

Phase 3 of the initiative utilized the integrated database; organizational streamlining and new user tools to maximize the utilization of the company's investment in assets and achieve dramatic cost savings while providing improved customer service. Asset inventories are completed periodically and detailed analysis of asset equipment capability, age and manufacturer support have been calculated to identify areas to be worked and opportunities for improvement. We will continue to map and tailor key processes. The workforce has been

trained and performance metrics established to drive improvements. The plan implemented the process in Fort Wayne, IN and Clifton, NJ for both Space and Communications Operations.

The initiative has based productivity and cost saving opportunities from current business and financial plans.

The savings achieved from Phase 3 of the initiative are in addition to the cost savings achieved in Phase 1 and Phase 2 of this project.

Value Based Asset Management Cost Savings/Cost Avoidance

Going into 2008, the Value Based Asset Management program has provided ITT CS with **\$21,656,235** in cost savings/cost avoidance and an improved tool that maximizes our utilization of human

resources and equipment.

Part 2 of this article will cover the Property Management System streamlining and continuous improvement processes upgrades employed to identify and recognize additional cost savings.

Part 3 of this article will cover database integration including the purchase of a fully integrated database to generate maximum savings achievable from operating a single Property Management System. I will also include our asset utilization improvement that continuously contributes cost savings from a reduction of capital required to run the business and a reduction of the cost of ownership costs eliminated from the reduction in the financial investment. ■