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Software asset management strategy template

Most people think of asset management as the act of managing a person's cash and investments, usually by a financial company. For companies, asset management means something completely different. In general, it is the act of tracking all things of value to an organisation so that assets are developed, operated, maintained and disposed of as cost-effectively as possible. Asset management is the act of managing the organisation's physical assets so that nothing gets wasted, nothing sits idle and everything that needs to be upgraded is upgraded. For companies, asset management is the act of managing the organization's assets so that they are used as cost-effectively as possible. Asset management deals with the tracking, maintenance and upgrading of key assets to ensure that everything the company owns is put to its best use. Companies with good asset management practices track everything from conception to asset life until its disposal phase. The company understands the location, use and state of asset repair, so nothing sits idle. Asset management is a way to add value to an organization by managing assets to be more efficient, reliable or cheaper. It lets a company see an overview of what assets it has, where they are located, which are in pristine condition, and which are older and need some work. This data allows the company to plan purchases, plan maintenance, and find out the value of the assets on its balance sheet. With better data on how it uses physical assets, a company can assess the production of its assets against maintenance costs so that it understands the right time to replace assets in relation to setting them. Good asset management practices offer many benefits, including: More predictable and sustained cash flows as assets are used consistently and optimally throughout their lifetime. An up-to-date understanding of the value of assets on the balance sheet. An accurate record of quantity so that you do not duplicate the purchase of equipment you already have. Maintenance discipline through planned preventive maintenance. Benchmarking of asset performance relative to other companies. Tracking each asset's depreciation status so you know what to report on your tax return. As a strategy, it is especially effective in lean times when a business needs to make the most of the resources it has. Managing assets can be difficult if you are not organized. That's why many companies use specialized technology platforms to tag assets and better analyze the risks associated with their inventory. Software solutions are as wide as they are long, so be sure to shop around for the right solution. As a minimum, use software that supports For example, you can use the <a0></a0> to post inventory at multiple locations, track purchases and disposals, and prepare reports to identify assets during tax preparation. Popular cloud-hosted cloud hosted Like Asset Panda, you can track storage from anywhere on mobile devices your employees already use, and you can access support by phone and email. The EZ Office store is another comprehensive solution that supports all purchase levels, providing small and medium-sized businesses with the asset tracking solution they need. Having looked at hundreds of small businesses and worked on a number of them, I have seen certain patterns of behaviour repeated over and over again, leading to a possible failure. If a company is in trouble, it is almost always a management problem, hardly ever bad luck. When a company survives for many years but finally comes on hard times, it usually means (a) that there is a valuable core of talent and expertise somewhere in the corporate structure yet (b) some persistent management shortcomings have gradually eroded its strengths and left it vulnerable to whatever negative wealth it encounters. In a moment, I will touch on the areas that cause management the most trouble, but first allow me to clarify a point. While this article focuses on the lessons I have learned about running small manufacturing businesses, much of what I'm discussing applies to the practical problems faced by the operating units of significant companies. In my opinion, there are three main areas of weakness in small businesses that cause problems, all of them management centered. 1. Sales growth is widely seen as the solution to all problems. There is a lack of awareness that apart from the short term, there is no such thing as fixed costs. Managers, trapped by the concept of marginal income accounting, bring additional products, believing that their fixed costs will not be affected. 2. Insufficient product-cost analysis blinds managers to loss by adding new products willy-nilly. Usually there are one or more products or product lines that should be dropped. 3. Leverage operations to the profit and loss account, while ignoring the balance sheet, is all too common. Lack of concern about the liquidity and productivity of invested capital can be fatal. Managers tend to seek new funds instead of making better use of those they already have. 1. Growth for Growth's sake The most common cause of problems is the widespread belief that the only path to success is through growth. Many businessmen see sales growth as the solution to all problems. It's rare. Growth does not mean capitalist success. In fact, decreasing the number of products or product lines is usually the safest route to better profit and higher return on investment. The mania for growth is commonly expressed in the fight to increase sales. Standard accounting methods tend to promote the belief that higher profits automatically result from higher sales. More standard tends to mislead those who accept standard cost allocations as gospel. Gospel. Income accounting Much has been written about the benefits of marginal income. The theory is that, for a short period of time, additional sales can be added to the normal sales volume profitable even at prices that are too low to cover a proportionate share of fixed costs. Managers often do this because they assume that 100% of the fixed costs in the business are borne by their regular business anyway. However, pricing your product so that it doesn't cover a full share of overhead is dangerous. Apart from rare and well-controlled exceptions, marginal activities taken to keep operations running result in the same fixed costs as the ordinary business, and by making the overall operation more complex it often requires more than usual. Recently, a company executive proudly mentioned that his leading accounting firm had advised him to price all products to obtain a profit margin over his direct material and direct labor costs. He had taken this advice to heart. No wonder his company was in trouble. However, if fixed costs really cannot be cut in a short period of overcapacity, it may make sense to take extra business at prices that will pay less than the full fixed costs. Even a modest contribution to paying these expenses for this period may be better than none. But the danger is that an emergency measure often becomes standard practice. It's a good way to go bankrupt. Break-even accounting Another management tool that inadvertently promotes growth for growth's sake is break-even accounting. Like marginal income accounting, the theory is that certain elements of fixed costs vary with the amount of operations, while others, which are called fixed costs, do not. The sales price is set to allow for material and labour costs plus variable fixed costs plus an additional increase to take into account fixed costs and profits. When the sales volume is high enough in a given period to absorb all variable costs as well as fixed costs, you have reached the break-even point. The margin of variable cost of additional sales is entirely profitable because all the fixed costs have already been taken care of. No wonder a producer hovers about a high volume month because, although he doesn't make any money and actually loses until the volume reaches the break-even level, his profit on volume over the break-even point is disproportionately large. The fallacy of break-even accounting is the assumption that expenses are easily divided into fixed and variable. Overhead is rarely as fixed as accountants are likely to think, except for very short periods of time. In any long-range analysis of a business, there is no such thing as fixed costs-it is all variable to some extent, even such elements as rent, heat, light and power, depreciation and amortization, services, and executive salaries. Terms Terms overhead and fixed overhead would be better called overhead, which varies immediately with activity levels and overhead that vary in the long run with activity levels. Except in the very short term, there are really few, if any, overheads. If you lease a 100,000 square meter facility for a ten-year period, the cost auditors will usually treat your rent as a fixed expense. But is it real? If you do not have enough space, you can rent more and thus increase this expense. If you have too much space, you can draw part of the room, or if it is impractical, you can even buy yourself out of the lease and move to a smaller building. Thus, rental expense can go up or down. The danger is that some managers tend not to pay attention to so-called overheads. Even worse, they assume they are stuck with them and see an increase in volume as the only way to pay for them. A skilled manager of a large merchandising company recently said: Our biggest problem is sales. Our industry has high fixed costs and we need to promote hard to maintain a sales rate to cover these costs. Securing more sales is by far our No. 1 problem. This is a typical, erroneous business position: provided that the cost structure is given and that the company must grow to cover all the fixed costs. Variation of break-even costs Manufacturers often take their profits only at the end of a run, absorbing all their fixed costs before any profit is counted. In aircraft manufacturing, for example, it is common to determine how many planes must be sold before the company breaks even. The danger of this variation in the breakeven accounts is that it can stimulate concern about sales volume, not margins. As such, once the fixed costs have been absorbed, the profit on the last increase in volume (either monthly or, if it is a one-shot product, by unit) is large, which promotes the position that more is automatically better. It is understandable that accounting policies allow a large part of the specific costs of a particular project (mainly tool and start-up costs) to be determined in relation to the estimated number of units expected to be produced. Also, management may be wise to plan for low sales to avoid the unpleasant possibility of taking a big write-off on unutilized costs if the product doesn't sell well. The result, however, is to place great emphasis on marketing efficiency rather than on cost-effectiveness. It is therefore not surprising that rising sales are the commonly accepted prescription for all business's ills. 2. Insufficient cost analysis At best, cost accounting is an inexact study with limited objectives. It is a way of looking at the direct costs that can be to a specific product or activity. However, it does a poor job of allocating indirect costs. Old and new product lines are usually charged in the same way amount for fixed costs, although the more recently added lines cost far more to boot. The new product line, which adds another straw to the management load, is rarely charged as much as it should, while the well-established line that runs itself is expected to carry the load for the new line. Research and development costs, for example, are usually charged by the current activities – which they do not benefit – rather than on the new lines that R&D will develop. It is probably necessary to get the old products to support the introduction of the new ones. However, many administrations are hardly aware that they are doing this. Therefore, they underestimate the profits on the old line and underestimate the cost of bringing the new one out. The effect is to encourage expensive new projects and downgrade current results. Benefits of simplification When a manager understands how to interpret his cost accounting information, however, he can see that curtailing is a good strategy. If the manager is willing to recognize that all fixed expenses are variable (although a few expenses take time and effort to change), it is easier for him to identify the costs that can be eliminated when his organization is trimmed down in size and complexity. A few years ago, one of our operating companies disposed of a line of portable positive-shift pneumatic machines that had an annual sales volume of about \$500,000. Although the line was a natural companion to a much larger and well-established line of fan-powered equipment and a tremendous effort had been devoted to getting it going, it had not made money and the prospects for success were poor. We finally made the painful decision to sell the line for a nominal amount. The buyer was one of our employees who set it up as a separate company that later proved modestly successful. The beneficial effects of these sales on the company's business were significant and almost immediate. Our balance sheet improved dramatically as we collected the remaining customers, worked in the warehouse and – by purchasing no more material – reduced our creditors. Our earnings improved more than the elimination of this relatively smaller line seemed to justify. Only then did top management realize how much this one activity had required in the attention and effort of almost everyone in the parent company. The product line had had a disproportionately high overhead, but the figures did not show it. The benefits of simplification are hard to quantify, but they are real. Despite everything the computer can do to enable a wide range of controls, there is no better path to efficiency than eliminating complexity completely, usually by shrinking the business to a smaller and more manageable size. The manager's job is to maximise the opportunities in the company, not to all its problems. He can do it best by a limited number of objectives, with the exclusion of all the inactivity in a large economic activity. It's not easy. As EF Schumacher says, any third-rate engineer or researcher can increase complexity; but it takes a certain flair of real insight to make things simple again. 1. Simplifying a business is the best place to start normally with the products. This is where the ball game is really played. Take each product line and analyze it separately. In most companies with more than one product line or group of products, there are some that contribute to its growth and success, and some that pull it down; it takes a careful study to tell the difference. If the company has sufficient product-line cost information, so much the better. Learn how information is developed and analyze whether the cost distributions between product lines are reasonable. Look for the low-profit product lines that represent a significant portion of the volume. For example, if a line has been a business mainstay for a long time, your people are likely to tell you that despite its low margins, it is absolutely necessary to keep that line because of the overhead it absorbs. You'll probably also be told that it carries more than its share of overhead, and that it really does better than the numbers say. In my experience, this is not usually true. In fact, such a line can do worse than shown on the statement and may have more actual indirect costs than that on the ledgers. Often a line is to keep a company down. In one of our operating companies we found a large product line that had been the backbone of the company for almost a generation. The line showed a slight loss year after year, while gradually decreasing in volume both absolute and relative compared to a newer line marketed through other channels. This old line was marketed to original equipment manufacturers (OEMs) in an industry where the smaller customer manufacturers were gradually driven out by a few large survivors who had become demanding buyers of components. However, the company's newer product line was sold to the consumer market through several thousand distributors. And it grew profitable every year. We were told that the company could not survive without the old OEM line because the fixed costs it carried made the profits on the distributor line possible. But that wasn't true. The OEM line required extensive design for annual model changes for each customer, generally had stricter quality performance requirements and had a wider range of more complicated mechanisms. Still, customers demanded immediate response to up-and-down schedule changes that made production planning beyond a few days almost impossible to achieve. We sold from the OEM line. And by doing so, we were able (a) to cut more than proportionately, (b) to free up funds tied up in a nonprofit program, and (c) to turn the company from a large loss to a large profit of less than a year. What you need to know In studying product lines, management should ask some basic questions. In this section, I will discuss seven of them. 1. Is the sales volume of the product or product line increasing or decreasing? Most products have a life cycle of 5 to 20 years (depending on how you define the product). If sales are on the downtrend, spend little or nothing to prevent it from dying a premature death.2 If it loses money and it's past its peak, let it die quietly. You should spend money on the product that is coming up. In fact, if this product already has a good margin, it probably can be increased even more. 2. Is the product line making a profit? If it is not profitable, as evidenced by the company's existing cost system, do not readily accept the argument that it really does better than the figures show that it does not spend as much overhead as is devoted to it and that if just such and such was done, it would start making money. Especially not listening to this argument for a product line the company has had for years that once made money. Better than reviving it, let it die quietly. 3. What is the gross margin for the different product lines? There is no fixed rule for a satisfactory gross margin (the difference between the net selling price and the total material cost, direct labour and applicable factory costs). One production company had a material cost alone that represented more than 90% of the sales price, but the item made a very satisfactory profit. The reasons: the material was expensive, but not bulky, and the company made only a small addition to the product before selling it to a few large users; Moreover, operating costs were negligible and the company only paid the raw material after it had collected for the modified product from its own customers. Therefore, almost the entire gross margin went directly to the owner's salary and profit. Generally, however, in manufacturing, if you are to have a profit of at least 10% on sales before federal income taxes, your gross margin should be no less than 35% and preferably well above 45%. If your gross margin is low, unless you can raise the selling prices (the first place to see) you face a long struggle to improve operational efficiency. For while you are struggling to reduce production costs, you can be sure that your competitors are ploughing this area too. You may later find that your hard-won improvements have only kept you from losing more ground. 4. What do your customers think of each product line, its price, its quality and your company's service? Most companies have their definition of the quality and competitiveness of their products, but the customer is the only person to assess the quality. He often has completely different ideas from you about what is important and what is not. Often products that managers or owners believe are fantastically fail miserably on the market, for reasons that are completely unexpected. A manufacturer of television sets claims that its product is better because the sets are handmade. The company makes a superior product, but craftsmanship does not impress me. Personally, I trust machine manufacturing more. The customer probably doesn't care how hard it is to do. If a product is as hard to do as some manufacturers advertise, it probably can't be very reliable. Quality is only what the customer says it is. 5. Does the sales department determine the pricing? If so, you can bet the prices are too low. Sellers rarely think that they can get a higher price for the product until they are told by management that they

have no choice. (Too marketing-oriented officers have the same shortage.) It's amazing how often the customer will pay more with little or no complaint, despite all the seller's warnings that to raise the price is suicide. 6. Is your sales department's pitch that we need to have a full line? Only the full line approach justifies continuing to manufacture and sell small goods that are expensive to tool and manufacture and which per unit sold cost a fortune to catalogue and carry in stock. If your competitor carries a full line, your sellers will insist that they can't compete unless they have all the items, also because the buyer wants to buy from a supplier. One-stop buying is a good sales gimmick but often is not good business. Crane Company had the most complete line in the plumbing industry, but its losses mounted until Thomas Mellon Evans acquired it, eliminated low-margin items, and thus put it back in the black. 7. Does your sales program offer a wide range of options, extras, and offers? Custom products always cost more, and unless the volume is large enough, then some economies of scale can be realized, they are sure to lose far more money than the books show. Many companies gradually add more and more variations to their line to suit the specific specifications or whims of different customers. These offers are ordered as a matter of habit for years then, even when the customer can do just as well with a standard product. If you carefully cut out the offers, you can usually convert the customer to a standard item. If you can't, you're probably better off losing your account. All of the above should help you cut out low profit or unprofitable product lines. If you are lucky, you can sell off the line to a competitor or someone who wants to get into the business. If you are not able to do this, just stop doing it. One way to stop is to implement a large, If the line has been grossly underpriced, you may not lose much business and may have turned a bad line into a good one. But even if you lose most of the business, a few of your customers, although they may object to the price, can continue to buy from you, at least for a while, so you can positively dispose of your inventory. When you cut a line completely, more things happen. As your sales volume is reduced, your receivables on this line will be cashed in. You stop buying stock and stop putting in direct labor and it saves you more money. You finish all personnel involved in the line, except those needed for the final salvage operation, saving even more money. You simplify your overall operation, making even more savings happen. You will probably need smaller machines and may be able to sell off the profits for cash. Finally, even if you can't sell all the inventory, you can scrap the rest, thus freeing up space that you can put to better use or even no use at all. Closing a product line is usually recorded in the ledgers as a loss. But you're just acknowledging losses that were actually incurred sometime ago but don't show on the books yet. You might as well bite the bullet now. 3. Imbalance concern Another common deficiency is to gear operations to the profit and loss account and ignore the balance sheet. The management of a company International Science Industries bought from a large conglomerate had never seen a balance because the parent company delivered all of its cash needs automatically on request. However, a lack of concern about liquidity and capital productivity can be fatal for the small business that is alone. Your best source of capital is often hidden in your balance sheet. I have become particularly aware of this because in most turnarounds the first concern is cash flow. Receivable Look through your assets to see what you can turn into cash. Often, the fastest and best cash source is your receivables. An intelligent analysis of receivables can be done without knowing much about the details of the company. If the book number for receivables is higher than the equivalent of 40 to 50 days of business sales, you can be sure that there is work to be done. Collecting amounts owed to you by customers is a tedious and unpleasant job. In poorly managed companies, the job is often overlooked. If the company has not made a profit, there has been no income tax incentive to write off unbearable accounts. As a result, these unbearable continue to clean up the balance sheet, making it harder to identify the accounts you need to work on. Get a report that shows all accounts by invoice number broken down into categories by invoice age than 30 days, 30 to 60 days, 60 to 90 days, over 90 days). Such a report an overview of where the problems are: procedure if you do not already have it. Decide who should police the claims and then ensure that they are really worked on. In many companies, sellers are not penalised when their customers have a bad payment. Sellers are obviously reluctant to annoy the people as they are dependent on business by insisting that the customer really have to pay his bill. The result is that the only customers who make timely payments are the ones who do it automatically, without the need that many companies expect before paying any bills. If you find that sellers are responsible for collection, redistribute the responsibility to someone in the accounting department who has no compunction about being stuck with a slow-paying customer. What good is it to make a sale if you don't get paid? Once the seller is freed from the responsibility of collection, he can sympathize with the customer about the requirements of this damn credit department and spend his time selling as he does well, instead of collecting as he does inefficiently, if at all. Support the customer records to see if the finance department is doing a good job. If you find a ton of small unpaid balances in the receivables, and at the same time, many unconscionable credit items, then you know that procedures do not exist or are not followed to match cash receipts with the relevant invoices to correct any discrepancies. Examples of the latter are when the customer pays for the product but does not pay for the freight, or takes an unauthorized discount, or in any way pays less than what the invoice requires. If these inconsistencies are ignored for too long, it becomes almost impossible to straighten them out without ticking off your loss. If sufficient work has been done, such a write-off will never be necessary. I'm especially partial to nit-picking accountants who keep tidy books and work to clean up all (and I mean all) open items within a reasonable period of time. If you can find time to be your own credit manager and to make some of the phoney to criminal accounts, you will be rewarded with new insights into your business. When you talk to a customer who hasn't paid his bill, you find out why he's not paying. Often it's because your own business has made mistakes that no one has done anything to correct. You'll also discover which sellers are doing a bad job in dealing with difficult product and sales issues. If they do not solve such problems as they arise, they do not help build your business. Instead, they are effectively tearing it down. Inventory items If your business operates in black, you have all incentives to write down or write down a stock that is no longer worth full value. It is necessary that all and auditors have assessment, which is still useful and is outdated. Their statistical analyses of inventory aging can be very useful, but the manager is the one to decide which goods are good and which are not. Even when there are no favorable tax consequences, a physical cleaning is good. Poor housekeeping generally goes with mismanagement. Some years ago, when a company I ran first took on a turnaround, we trucked out 23 semitrailer lots of scrap inventory in the first three weeks, accounting that the previous management had been afraid to write off the books, even though they (and we) knew it was worthless. Most of us hate throwing things away. Somehow, it never seems to come the right time. But never did anything show up to make me grateful I hadn't thrown anything out or to make me regret that I had. It's good for the soul to roll up your sleeves and clean house physically. And it's also good for business. Fixed assets Managers are likely to neglect to look at their fixed assets for hidden capital. Somehow land, buildings, machinery and equipment seem sacred. If the company has been around for many years, these assets are usually deeply written off on the books. However, due to inflation, these assets are likely to be worth far more than book value. (Land, although not depreciation-free, usually has inflated in price too.) The capital you actually use in the company is not measured by the net book value of those assets, but by their current market value. When you recognize this, you should seriously consider whether you need them all and whether you use them effectively. If you have a full tool machine shop to support your production efforts, can you justify tying up that much capital in expensive equipment when there are competent subcontractors available to do your job? If not, you can shut it down, sell out the equipment for cash, free up some space, and reduce your salary. My general rule is to outsource when possible all work, as our company has only a periodic need. If the work is a follow-up step in the production process which, if not done properly, can harm our products, we can make an exception and invest the money in doing it ourselves. Heat treatment of critical space parts is a typical example of an exception. Also, when we manufacture in high volume, it is an advantage to integrate backwards as far as possible and do it ourselves. Only in this way can we keep our unit costs down. But we still let outsiders make our tools. An important management decision is whether to continue to operate in a given location at all. Years ago, it may have been necessary to have satellite systems in different cities to serve your customers. But is it still true, and in the affirmative how much does it cost you to serve these customers? Years ago, since then, Science Industries acquired a manufacturing company with factories in five cities around the country. Within a year, two of them closed and wound up. We were able to move a large part of the business to the remaining three plants. Although sales volumes did not fall at all, costs plummeted. More importantly, this shift released a large chunk of capital for better use. A final reminder The name of the managerial game is return on investment. RETURN on investment is the ratio of operating profit after tax to the assets used. Management tends to look only at the former, neglecting the latter. In trying to maximize profits, attention is often focused solely on sales. However, the shareholder has no interest in the sale. he looks at earnings per share because they largely determine how much the stock sells for and what the dividend is paid. If the assets used can be greatly reduced, even if profits fall slightly, the return on investment will increase and shareholders will be better off. Is that a risky strategy? Not if the assets were previously employed inefficiently. Putting the company in a financially sound position is a first step. When the company is in a solid position, you can, if you wish, go for renewed growth. Or, if you get hooked on beauties simplicity, you can just keep on making money at this level. 1. E. F. Schumacher, Small Is Beautiful (New York: Harper & Row, 1973), p. 146. 2. See Joseph A. Morein, Switch from Brand to Product Line Marketing, HBR September-October 1975, p. 56. A version of this article appeared in the January 1976 issue of Harvard Business Review. Review.

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