



The low cost inventory illusion

Well managed organizations are required to perform regular fixed asset inventories or audits. In particular, public organizations are required to comprehensively count all fixed asset on an annual basis. Often this requirement has resulted in procedures being developed to saddle the existing staff with the responsibility to conduct the field inventory. It is preceded and followed by significant efforts by the administrators to prepare for and digest the results of the inventory.

Oddly, there is a widely held belief that this approach is the lowest cost option for compliance. But is that fact or fiction?

Many organizations's asset inventory process is commonly one refined over a number of years and originally developed based on comparatively primitive computerized applications. Little use is made of technology to streamline the process to improve either its accuracy or efficiency. But today's data collection and data base management tools provide powerful capabilities that can profoundly reduce the cost and complexity of this annual exercise.

Let's look at several areas where these improvements can be realized.

- The need to carefully prepare working papers for the field inventory and manually update records with the results can be eliminated or automated.
- Assigning the inventory task to managerial, professional or administrative staff can be removed and replaced with clerical personnel.
- The reconciliation process can be computerized.
- Using automatic identification (bar codes or RFID) to collect inventory data improves both the speed and the accuracy of the work product.

To realize these benefits, all assets must first be tagged with an appropriate identifier and recorded in a suitable data base. Often this task is mistakenly believed to be an enormous and cost prohibitive exercise. While the cost varies with individual circumstances, we commonly find that much existing data can simply be converted eliminating the need to recreate the data base. What remains, the retagging process, can be accomplished with little, if any, increase in the overall cost to conduct a single annual inventory. Then all future inventories are completed at a small fraction of the current cost. Not to mention dramatic improvements in accuracy.

So why, in the face of ample evidence, do organizations cling to this inefficient process?

Usually, it is the myopia of incremental cost. Automating the inventory requires investment in software, hardware and labels. The existing process is perceived to be “free” in that there is no need for additional spending. Moreover to accurately determine the cost of the present process may be difficult, time-consuming and, in some cases, embarrassing. We’ve worked with hundreds of clients and know it is difficult

So, on the organizations plod with their ostrich approach to the problem, paying too much for a mediocre result. Except for the few smart, well-managed ones who prefer to spend their money wisely.

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Tales from the Front is a periodic publication of Asset Systems, Inc. that is designed to provide users and prospective implementers’ insight and perspective on current trends and issues in asset management.