KEY PERFORMANCE INDICATORS FOR ASSET MANAGEMENT

Presentation by:

Edith Ngugi
ICPAK
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Presentation agenda

KPIs for Asset management

- ❑Introduction and interested parties to Asset Management
- ❑Capital Investments
- ❑Managing the Asset Life Cycle Activities
- ❑SCOR Model
- ❑Financial Ratios

Interested parties to Asset management

- The main stakeholder in the management of Assets is the shareholder, both current and potential.
- The potential shareholders include; take-over bidders, management, competitive firms and employees.

1.Initial Asset management.

- Capital Investments
  - Average pay-back period
  - Comparison of planned to actual discount factor
  - Comparison of planned to actual internal rate of return

2.Asset Life Cycle stages.....

KPIs across the Asset Life Cycle

Life Cycle Stage	KPIs
Planning and procurement	Asset Policy Capital investment/ expenditure
Utilization	Asset Register- tagging (bar codes, RFID) and capturing Deployment- Issue, responsibilities, monitoring
Maintenance	Continuous/ Routine maintenance Maintenance contracts
Support	Depreciation and planning for replacement
Disposal	Methods (Sale, Recycling, Destruction, Donation). Closure (updating the register) and replacement

3. SCOR Model

- The SCOR Model refers to Supply Chain Operations Reference (SCOR) .
- The model was developed in 1996 by supply Chain consulting firms Pittiglio Rabin Todd &McGrath and AMR research.
- Some of the notable firms using this model include Intel, IBM, 3M, Cisco, Siemens and Bayer

The SCOR Model...

- The SCOR Model separates SC into five main categories:
  - PLAN - Demand and supply planning
  - SOURCE - managing incoming inventory
  - MAKE - the entire production network
  - DELIVER- managing finished goods, import/export.
  - RETURN- return of materials to products

SCOR Level 1: Performance Categories and Attributes

Performance Category	Performance Attribute
Reliability	Delivery performance Fill Rates Perfect Order Fulfillment
Responsiveness	Order Fulfillment lead-times
Flexibility	Supply chain response times Production flexibility
Cost	Supply chain management cost Cost of goods sold Value added flexibility Warranty cost or returns processing cost
Assets	Cash-to-cash cycle time Inventory days of supply Asset turns

Asset performance attributes

1. Cash – to – Cash cycle

The cash conversion cycle (CCC) is a metric that expresses the length of time, in days, that it takes for a company to convert resource inputs into cash flows.

Asset performance attributes

Calculating the Cash – to – Cash cycle:

CCC = Days of Sales Outstanding PLUS Days of Inventory Outstanding MINUS Days of Payables Outstanding.

CCC = DSO + DIO – DPO.

DSO = [(BegAR + EndAR) / 2] / (Revenue / 365)

Days of Inventory Outstanding.

DIO = [(BegInv + EndInv / 2)] / (COGS / 365)

Operating Cycle = DSO + DIO.

Asset performance attributes

2. Inventory days of supply

Days in inventory (also known as 'Inventory Days of Supply(DoS)', 'Days Inventory Outstanding' or 'the Inventory Period') is an efficiency ratio that measures the average number of days the company holds its inventory before selling it

Asset performance attributes

Calculating the Inventory days of supply

Divide the annual cost of goods sold by the number of days per year to find the inventory used per day.

$$\text{Days Sales of Inventory} = \left(\frac{\text{Inventory}}{\text{Cost of Sales}} \right) \times 365$$

Asset performance attributes

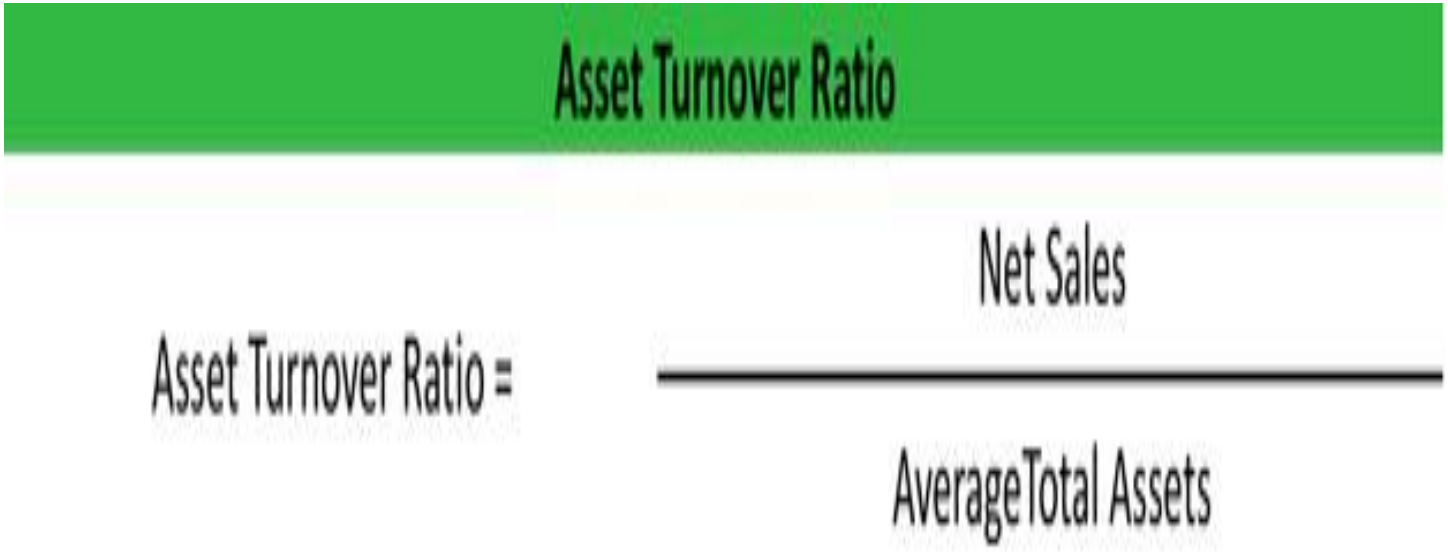
3. Asset turns

Asset turnover is a financial ratio that measures the efficiency of a company's use of its assets in generating sales revenue or sales income to the company. Companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover.

Asset performance attributes

Calculating the Asset turnover

To calculate the asset turnover ratio, divide net sales or revenue by the average total assets.



4. Financial Ratios

- **Asset utilization ratios:**
  - Asset turnover ratio
  - Capital efficiency
  - Revenues/total assets (%)

Financial Ratios

1. Asset turnover ratio

- This ratio shows how efficiently a company can use its assets to generate sales.
- This ratio is based on industry standards. Some industries use assets more efficiently than others. To get a true sense of how well a company's assets are being used, it must be compared to other companies in its industry.
- Investors and creditors may use this to check how well a company is managed and uses its assets (or specific assets) to produce products and sales

Financial Ratios

2. Capital efficiency

Return on capital employed (ROCE) is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed.

ROCE = Earnings Before Interest and Tax (EBIT) / Capital Employed

The larger the ratio, the better the capital efficiency.

Financial Ratios

3. Revenues/total assets (%)- *the higher, the better.*

$$\text{Total Asset Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

$$\text{Fixed Asset Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Fixed Assets}}$$

$$\text{Working Capital Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Net Working Capital}}$$

Conclusion

- Benefits of good Asset management
- Better forecast of needs
- Make informed purchasing decisions
- Being proactive when it comes to replenishing resources
- Improvement in the quality of services
- Knowledge of the total cost of ownership of an asset

Interactive Session