E-book

Aberdeen Research Top fixed asset management strategies

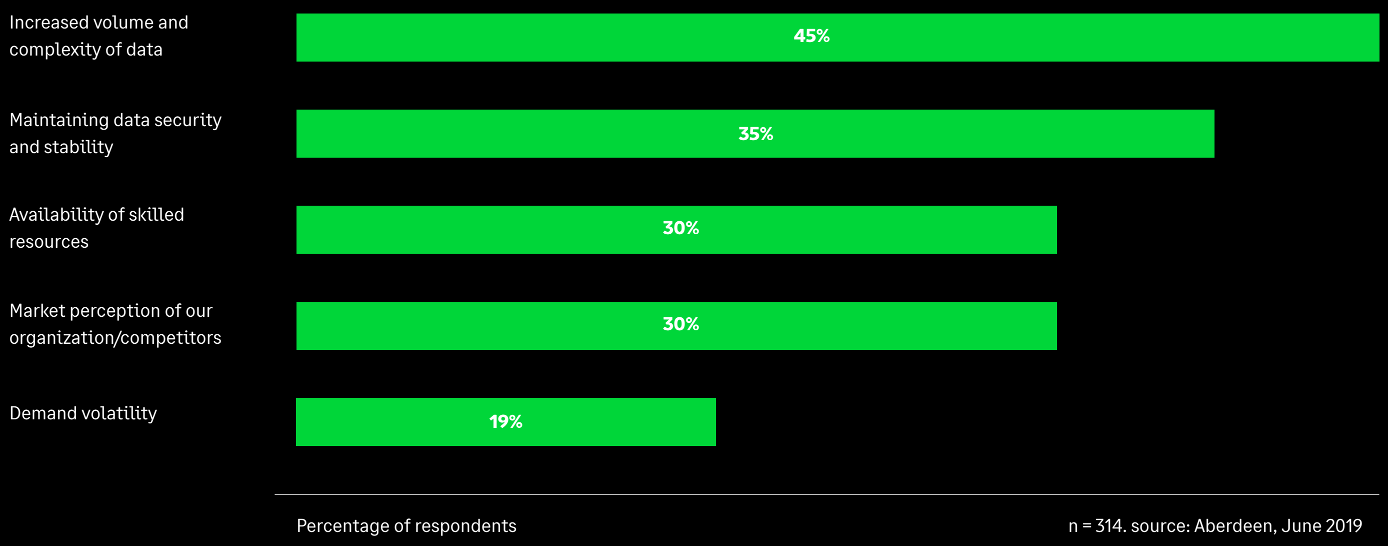
Close management of fixed assets is a necessity for large, asset-heavy enterprises. This report investigates the motivators, benefits, and impacts of tracking these resources using fixed asset management strategies.

Managing fixed assets is one of the many accounting tasks businesses must complete monthly. In today's competitive market, it is more important than ever for companies to minimize their compliance risks by properly depreciating these assets. Failing to adhere to correct depreciation schedules can create ghost and zombie assets—two antagonists that can cause detrimental non-compliance consequences. When used effectively, fixed asset management (FAM) technology can help insulate businesses from these risks. Research demonstrates that almost two-thirds of large enterprises are using FAM technology as an integrated module within their enterprise systems and are thriving as a result. This report dives deeper into the challenges, outcomes, and tactics of companies utilizing FAM technologies.

Competitive pressures necessitate financial efficiency
Maintaining a competitive edge is more complicated than ever before—with the rapid advancement of technology and quickening pace of business, last year's leaders are often this year's laggards.

Financial efficiency is a virtue that can provide a much-needed boost if done correctly. To identify the motivators amplifying financial efficiency, understanding the pressures that enterprises face today is essential. (Figure 1)

Figure 1: Top technology drivers for enterprises today



The top pressures respondents cited were increased volume and complexity of data, as well as maintaining data stability and security.

With these principle technology drivers, data management becomes a clear focal point. One hurdle that businesses struggle to overcome is shareability between databases. Businesses often have a variety of methods and tools for storing data, but more source systems and data types fuel complexity and security challenges.

Challenges with accessibility and security, however, aren't the only complications for financial efficiency. The availability of skilled resources repeatedly comes up as a major pressure in Aberdeen's research. In a business landscape that places an increased constraint on human, financial, and technical resources, achieving efficiency in financial management is of paramount importance.

The Aberdeen maturity class framework comprises three groups of survey respondents. This data determines overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

- **Best-in-class:** Top 20% of respondants based on performance
- **Industry Average:** Middle 50% of respondents based on performance
- **Laggard:** Bottom 30% of respondents based on performance
- A fourth category, **All Others**, combines Industry Average and Laggard

Ghost and zombie assets—two hidden enemies

Ghost assets are those that have been fully depreciated and passed the end of their useful life, but are still being expensed on the income statement—thus leading to erroneously low net income.

Zombie assets are those that are active within their useful life but aren't properly expensed on the income statement—thus leading to erroneously high net income.

Many companies are familiar with the concepts of ghost and zombie assets but fail to fully grasp the depth of the risks they pose to an organization. Ghost assets can bring about false decreases in tax liability and compliance-standards violations. Ghost assets surface with unorganized or neglected depreciation schedules. The risk of falsely reduced tax liability and non-compliance makes ghost assets a particularly dangerous foe. In a recent Aberdeen survey, some cited risks focused on tax compliance (Figure 2).

As identified by respondents, ignoring ghost assets can cause a myriad of non-compliance problems and result in fines / penalties, damaged reputation, loss of customers, a significant decrease in profit margins, and even jail time for executives (Figure 2). These assets often get lost in a sea of data and are left to wreak havoc on financial statements.

Zombie assets, on the other hand, are functioning or active assets that aren't depreciated on the income statement, therefore missing the benefit of reduced tax liability while exposing a company to compliance issues.

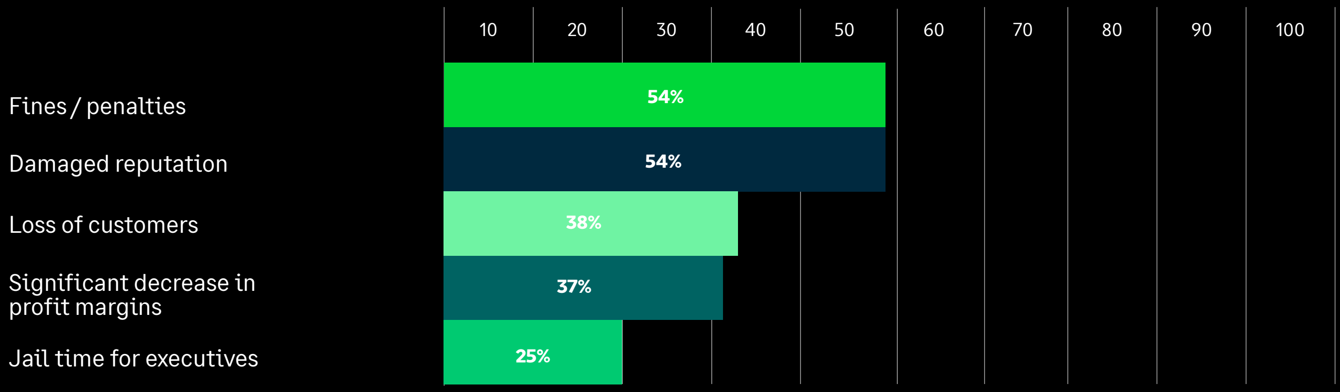
Although not as criminally detrimental as ghost assets, zombie assets are more financially damaging. Both assets arise from poor visibility and improper tracking of fixed assets, often due to over-reliance on spreadsheets and other unorganized, manual forms of data entry.

These menacing assets can affect Best-in-class, Industry Average, and Laggard companies alike. However, Best-in-class companies seem to handle their financial reporting more efficiently and accurately than other companies (Figure 3).

Best-in-class companies are more transparent with their financial reports than All Others. The Best-in-class are more likely to provide visibility into their financial performance information with their stakeholders.

According to Aberdeen, Best-in-class companies had more reports that were 100% accurate, which indicates the effectiveness of their techniques to prevent ghost and zombie assets. Examining how Best-in-class companies handle their financial reporting and asset tracking uncovers potential defenses against these detrimental assets. One of these methods is utilizing FAM technology.

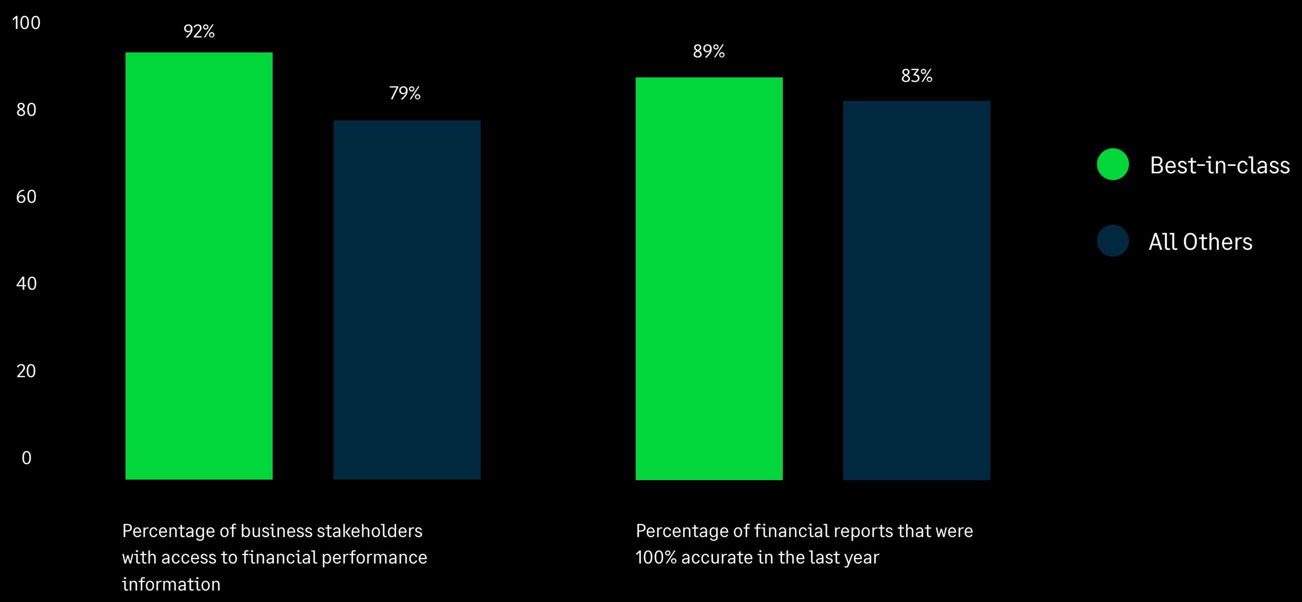
Figure 2: Most prominent risks of non-compliance



Percentage of respondents

n = 178. source: Aberdeen, June 2019

Figure 3: Best-in-class deliver efficienty and accuracy



Getting serious about fixed asset management
Implementing a FAM strategy can do more for an organization than improve data infrastructure; those that have a FAM strategy in place are mature in other areas (Figure 4). Companies that utilize dedicated technology for FAM are more sophisticated than those that do not. When comparing the two groups, the data shows that implementing FAM strategies provides room for growth to expand other aspects such as data integration, traceability, and financial consolidation.

One important aspect of utilizing FAM technologies is the ability businesses then gain to prevent maintenance of assets. Of the companies that have a FAM strategy in place, 58% can schedule preventative maintenance compared to the 31% that have that ability without FAM. Thus, businesses with FAM strategies avoid future costs more effectively than their competition. By improving data management, performance measurement, and business execution, incorporating FAM into ERP strategies could be the first step toward developing a mature approach to financial management.

Companies with a mature approach to financial management, including the use of FAM technology, see business results in profitability and efficiency. Over the past two years, the change in several metrics that companies observed reveals how FAM strategies are affecting a wide range of business processes (Figure 5).

Companies with a FAM strategy in place improved substantially more than those that do not—in all areas. Those utilizing FAM exceed non-users in profitability, which indicates that successful companies see the value in FAM.

The rise in effective business processes and higher productivity of assets and employees illustrates increases in efficiency. FAM users have an edge on their competition for cycle time of key business processes, which demonstrates the effect of FAM on the speed of manufacturing. Companies with a FAM strategy in place also have more exceptional performance in productivity and inventory turns. The data proves that there's a clear association between FAM strategies and improvements in employee proficiency and asset agility, both of which contribute to growth in efficiency.

Figure 4: Key capabilities to support FAM

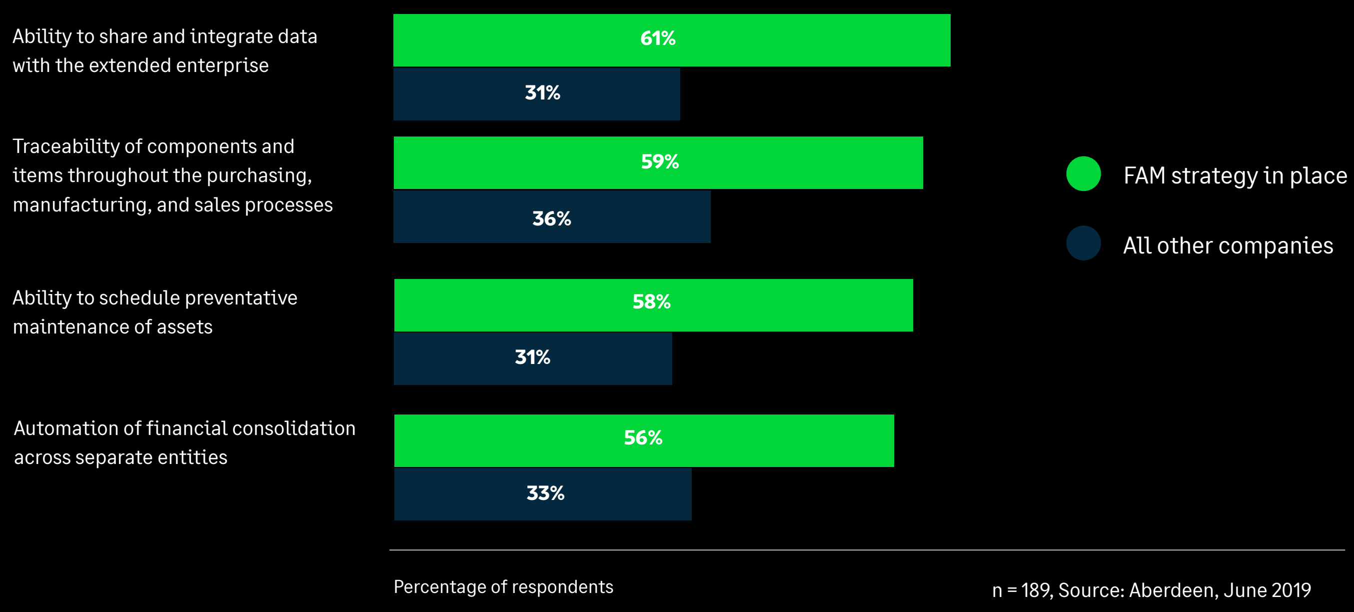
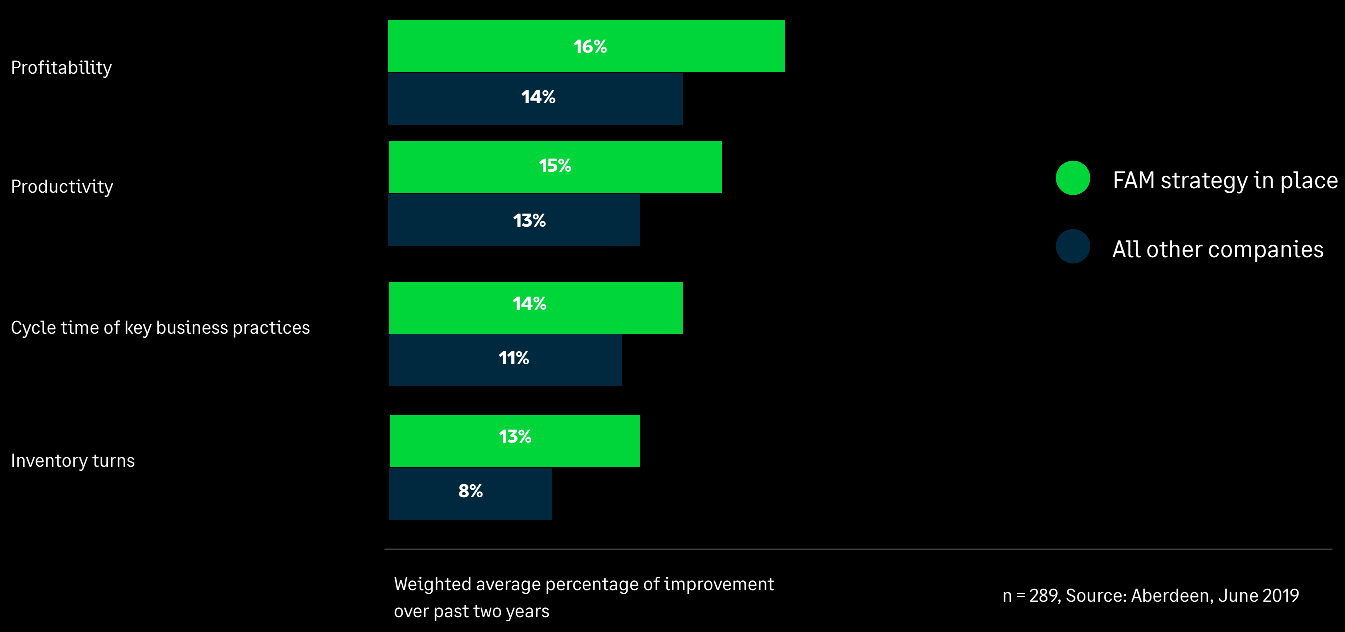


Figure 5: Business impact of FAM



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