Investment Recovery’s Role in the Supply Chain

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Abstract. Investment recovery generates significant revenue and creates impressive cost savings for corporations. By strengthening bonds between investment recovery and other departments responsible for the supply chain, corporations will realize less waste and idle assets while increasing revenue.

Investment recovery provides corporations with a structured program to identify, reuse, sell, or otherwise dispose of surplus or idle assets. Properly redeployed, these assets can create a cost savings for buying additional equipment or other assets. Typically, 70 percent to 90 percent of assets’ revenue goes to the companies’ bottom line.

The Opportunity. Despite close proximity between investment recovery and purchasing departments, few people who work in other areas of the supply chain know or understand the value that IR can bring to the bottom line. By including investment recovery in the supply chain review, corporations will see opportunities to reduce idle assets.

Investment recovery consists of several key steps. If those steps are done properly, investment recovery will be a success.

Key steps for a successful investment recovery program:
• Identify surplus
• Determine opportunities to redeploy surplus assets elsewhere in the company
• Assess value of assets
• Identify markets
• Finalize legal transactions
• Manage risk
• Report program status

Objectives. The seminar’s objective is to impart specific information about the basic concepts of investment recovery, highlight specific skill sets, and create awareness about program requirements and an understanding of the disposal process. By strengthening bonds between investment recovery and other departments responsible for the supply chain, corporations will realize less waste and idle assets while increasing revenue.

Prologue. Investment recovery offers companies an opportunity to generate revenue and cut costs for capital expenditures and other materials by reusing, selling or recycling idle assets.

Investment recovery provides a structured program to identify, reuse, sell or otherwise dispose of surplus or idle assets. Many companies — even companies that consider themselves in touch with investment recovery — earn only a fraction of the potential investment recovery
revenue because they frequently sell assets for scrap or don’t aggressively identify and market idle assets.

In addition to potential revenue, companies can avoid costs by redeploying equipment, rather than buying additional equipment. In addition, companies can see the following benefits:

- Improve short-term cash flow
- Reduce inventory levels
- Improve storage space
- Recover a portion of idle assets’ costs
- Strengthen company earnings through reduction of operating costs
- Protect the environment
- Reduce liabilities
- Minimize taxes

A talented investment recovery director will benefit his company by fulfilling some or all of those benefits. While traditional investment recovery is having a positive effect on corporate bottom lines, a few companies are experimenting with digging deeper into the supply chain to identify and dispose of surplus assets. Some of those “next wave” of investment recovery options will be discussed later in this paper.

Without a doubt, investment recovery will play a vital role as companies continue the push to become lean and mean. Corporate America is starting to realize that investment recovery can add revenue, reduce costs of paying to dispose of excess waste and enhance the company’s reputation as a good steward of the environment.

Investment recovery managers typically reuse, sell or recycle office equipment, computers and telephone systems. Occasionally, innovative IR managers have helped their companies profit by selling airplanes, peanut skins and goat herds, thereby reducing storage costs, landfill disposal costs and grazing lands.

In addition to improving their companies’ bottom line and determining the best method of disposition, IR professionals serve as secondary sources on negotiations and frequently work closely with purchasers to manage auctions and serve as a liaison with brokers.

The Eight R’s. Investment recovery’s disposal options are commonly called the “Eight R’s”. They are:

Reuse/Redeploy/Relocate. The primary option for investment recovery is to find another area within the company to use an idle asset. This puts the asset to work as part of its lifespan and avoids the cost of purchasing, for example, fork lifts for the Omaha facility when three lifts are sitting idle in a warehouse in Wichita.

Redeployment is the area where purchasing departments and investment recovery have forged the closest bond. It’s crucial for the two departments to communicate closely to determine what purchases are being planned and how they might mesh with idle assets in company inventory.
Resell. While redeployment will put an idle asset to work and keep it in company inventory, selling idle assets will generate revenue and improve short-term cash flow. This can be the best option if the asset is leaving company inventory.

Removal. Avoid paying removal cost by selling process machinery in place. The customer, with an approved contractor, will be able to control how the machinery is removed and prepared for shipment.

Remarket. Often, a surplus item can be sold back to the dealer or manufacturer. Frequently, dealers or manufacturers will buy back used equipment to keep after-market vendors from buying the equipment and creating price wars.

Return. The disposition of excess/obsolete maintenance and stores inventories is difficult to manage. One of the best options is to return to the vendor for a credit. The Investment Recovery professional should work with the Procurement department to initiate return clauses in procurement agreements (surplus and waste minimization.)

Remanufacture/Recondition. Some assets can be remanufactured, rebuilt or reconditioned at a fraction or their replacement cost new.

Reclaim. Some times the removal and reuse of an asset’s parts is more valuable to the company than the sale of the asset in tact.

Waste streams can often be sold directly to other manufacturing operations.

Recycle. This comes down to a few options: donating the item to a charity for tax purposes, giving the item away to save maintenance cost and storage space, sell as scrap or paying for disposal.

Surplus assets typically fall into a few basic categories:
• Machinery & Equipment
• MRO supplies
• Complete process lines and plant sites
• Raw materials
• By-products or waste
• Excess inventory
• Buildings and land

Investment recovery process. The ability to dispose of idle assets comes down to a few vital steps. Surplus assets must be identified and evaluated and then be cleared by management for disposition. They are then marketed or redeployed as necessary.

Surplus assets that you have identified then should be prioritized to determine which items will be easiest to dispose of, which will bring in the highest dollar value, which items you have in the greatest quantity, which offer the easiest logistics, etc.
The next wave of investment recovery. While IR efforts already have a positive effect on the corporate bottom line, the increasing need to maximize profit, reduce operating expenses and protect the environment may serve to increase the role IR plays.

Several companies are working to enhance investment recovery through reverse logistics and reverse supply chain management. The process could be as simple as consulting the IR department before purchasing a vehicle fleet to determine which models will have the best resale or trade-in value.

One Investment Recovery Association member, 3M, is developing a reverse supply chain logistics program. 3M is in the process of quantifying opportunities to dispose of surplus assets throughout the supply chain, from raw materials through excess inventory. This is a cross-cultural exercise at 3M, in which members of R & D, purchasing, investment recovery and others try to better analyze where surplus assets fall out of the supply chain and what to do about it.

3M is still in the development stages of its program and is collecting data on its effectiveness. The company’s managers have already seen a marked increase in communication among all the departments along the supply chain, and an increased awareness that “waste” is a dirty word and surplus assets can bring revenue.

Benchmarking and best practices. These “next wave” methods are, I believe, the logical outcome of companies striving to wring out every dollar of profit possible. For several years,
the Investment Recovery Association has shared best practices and developed benchmarks among our member companies to show the impact that investment recovery can have.

The Association recently completed our benchmarking survey for 2001, in which 74 companies participated. To give you a snapshot of what investment recovery means to companies, consider these statistics:

Benefit-to-cost ratio is 16 to 1, up from 15 to 1 during our 1999 survey.  
Our total cost benefit dollars per IR employee is $1,918,947.  
And our gross revenue per transaction is $85,381.

The link between the supply chain and investment recovery is clear. I wouldn’t have my job if not for the supply chain and the surplus assets it produces. And as investment recovery works more closely with purchasing and other key departments, it is improving the cost of running the supply chain.

**Biography.** Dennis Knutz has worked in the machinery and equipment industry for more than 43 years. For the past 28 years, he has been instrumental in developing Weyerhaeuser’s Investment Recovery program.

Dennis is a charter member of the Investment Recovery Association and has served in a variety of functions, including president. He is a certified appraiser with the American Society of Appraisers and a Certified Manager of Investment Recovery through the Investment Recovery Association. Dennis is a contributing author for the investment recovery section of the NAPM handbook.