

Asset Productivity

Today, industry leaders are looking at the economic earnings model from a new perspective — asset effectiveness. This asset effectiveness view focuses squarely on the fixed asset base. It directs a lens towards creating shareholder value by improving the productivity of that fixed base while avoiding significant new capital investment. In stark contrast to the Capital Project approach, the asset effectiveness model seeks to utilize existing assets to their maximum capacity, increasing productivity without additional investment. Greater productivity and asset effectiveness ultimately drives a sustainable competitive advantage by increasing revenue and profit, reducing capital investment and achieving operational excellence.

The foundation of economic earnings has traditionally focused on increased capital investment in the form of operating profit. Organizations trimmed costs in order to boost profit margin. Traditionally, investments and acquisitions were expected to increase productivity. The capital project approach is designed to reward efficient capital spending through completed projects and increased capital investment. However, it can adversely affect operating profit and margin growth if planned productivity and market share objectives are not achieved.

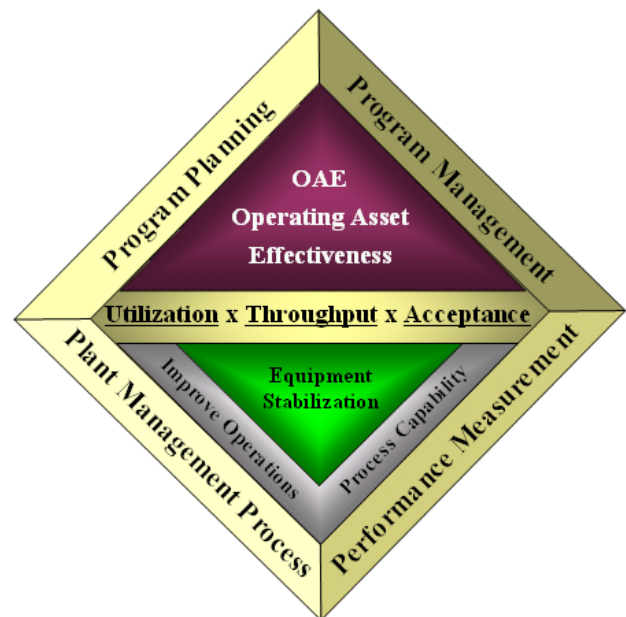
Since the capital project model often achieves its goals on the basis of capital increase instead of operational excellence, it creates an unsustainable reliance on capital investment as a primary driver. Increasing output in the short term does not necessarily lead to increased economic earnings over the long term. Capital investment that is not directly linked to operational excellence or a sustained competitive advantage is not an optimal business solution.

In short, the new asset effectiveness perspective of the economic earnings model enables top line growth, minimizes costs and positions the capital infrastructure to compete, adapt and win. Research shows that the best performers know how to measure and sustain asset effectiveness by depending on resources other than new capital as the enabler of operational excellence. This shift in mindset can have a significantly positive impact on shareholder value.

Metric: Operating Asset Effectiveness (OAE)

Operating Asset Effectiveness is the comprehensive metric that determines asset utilization improvement. The OAE formula combines utilization, throughput, and acceptance. It also monitors the impact of an Asset Effectiveness program which extracts the most value from the existing asset base. This value extraction enables companies to achieve the highest sustainable throughput rate at the lowest possible cost.

An asset effectiveness program collects and analyzes key data across several functions, including output volume, planning, engineering, operations, quality assurance, and maintenance. These indicators are then used to diagnose root-cause issues of underperforming assets. The overall metric, OAE, is a very powerful analytical microscope into an organization's operational health and its ability to adapt to various business, market or competitive conditions — in addition to its value creation role in capital preservation and optimization.



Why is Asset Effectiveness Important?

Creates Shareholder Value: The asset effectiveness methodology emphasizes improvements with minimal capital and enables precise evaluation of return on investment through an analytically-derived OAE metric. The result is higher economic earnings and growth in shareholder value.

Enables Profitable Growth: Asset effectiveness drives profitability by optimizing productivity, capacity growth, and adaptability to market conditions. Increased asset productivity enables operational excellence that drives a sustainable competitive advantage in both growing and mature market sectors.

Improvement in the three primary components: utilization, throughput, and acceptance

Improvements result from a structured methodology that attacks three major components of poor asset effectiveness:

- **Operations Improvement** - enhancing work and production process effectiveness
- **Equipment Stabilization** - improving maintenance, reliability and equipment condition
- **Process Capability** - improving the basic performance of production processes

Supports Capital Allocation Strategies: Companies make better capital allocation decisions when they employ OAE to identify opportunities for: 1) utilizing the most effective assets, 2) re-deploying under-performing assets, and 3) eliminating surplus or poorly performing assets.

Drives Cost Leadership: Asset effectiveness (AE) improvements yield significant increases in capacity, which can then be leveraged to increase revenue, decrease unit cost and reduce capital. AE stands at the intersection of peak efficiency, optimal productivity and high quality assurance.


The Thomas Group Approach: Results

Thomas Group delivers breakthrough process improvement through program management to propel a successful asset effectiveness program.

Thomas Group has developed a cross-industry asset effectiveness methodology that is tailored to a client's specific operating environment and business conditions. The methodology also addresses the existing cultural attitudes, values and behaviors that are the foundation of a successful, company-wide adoption of the new approach. Thomas Group's asset effectiveness methodology offers:

- A systematic enhancement of operations, equipment performance and process capability
- Industry-specific expertise and functional skills
- Clear evaluation methods and analytic process improvement models to determine asset performance benchmarks
- Root-cause analysis to drive operational and strategic adjustments for peak productivity and capacity
- A *train and do* approach that fosters successful process adoption across client organizations

Thomas Group's AE methodology is highly collaborative with cross-functional client teams. It enables clients to infuse AE into their unique corporate cultures. This approach effectively institutionalizes AE fundamentals and enforces their execution through tracking key performance metrics and management procedures.

This transformation not only requires asset effectiveness expertise, but also a strong culture and change management methodology, solid end-user training and performance measurement. Our integrated, holistic approach sets us apart from other consulting firms. 

Thomas Group Differentiation

- Our improvement metrics are cost, unit and OAE level, not budget
- Improvement ideas are initiated by plant employees
- We FOCUS process improvement activities on specific, chartered issues
- We assign full-time employees to cross-functional task teams
- We train and do, immediately reinforcing new skill development
- We equip clients to follow rigorous, analytic process improvement methodologies
- We aggressively monitor results
- We disband task teams after charter's duration
- We help you return trained, experienced employees to line operations
- These best practices are mutually interdependent, and all must be completed