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*The Executive Guide™ To*

# Service Management in an Uncertain Economy

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*Jeffery Hicks*

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## Chapter 4: Effective Asset Management

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In tough economic times, having an effective service management strategy can be the difference between surviving, and while I won't say thriving, at least maintaining a competitive edge. By closely aligning IT and business operations and goals, organizations can extract more value from their current infrastructure, keep costs low, and yet still provide the necessary value to their customers, both internal and external.

A critical element of any such strategy is effective asset management. Effective asset management is a key component in developing a dynamic infrastructure and an overall service management strategy. This makes it easier for companies to manage business and IT assets as services and transform these assets into business value. Today more than ever, with slashed budgets, slumping sales, and a slow economy, companies must make the most of their existing assets. They must reduce management costs, extend the life of such assets, and otherwise discover ways to leverage their assets to a competitive advantage.

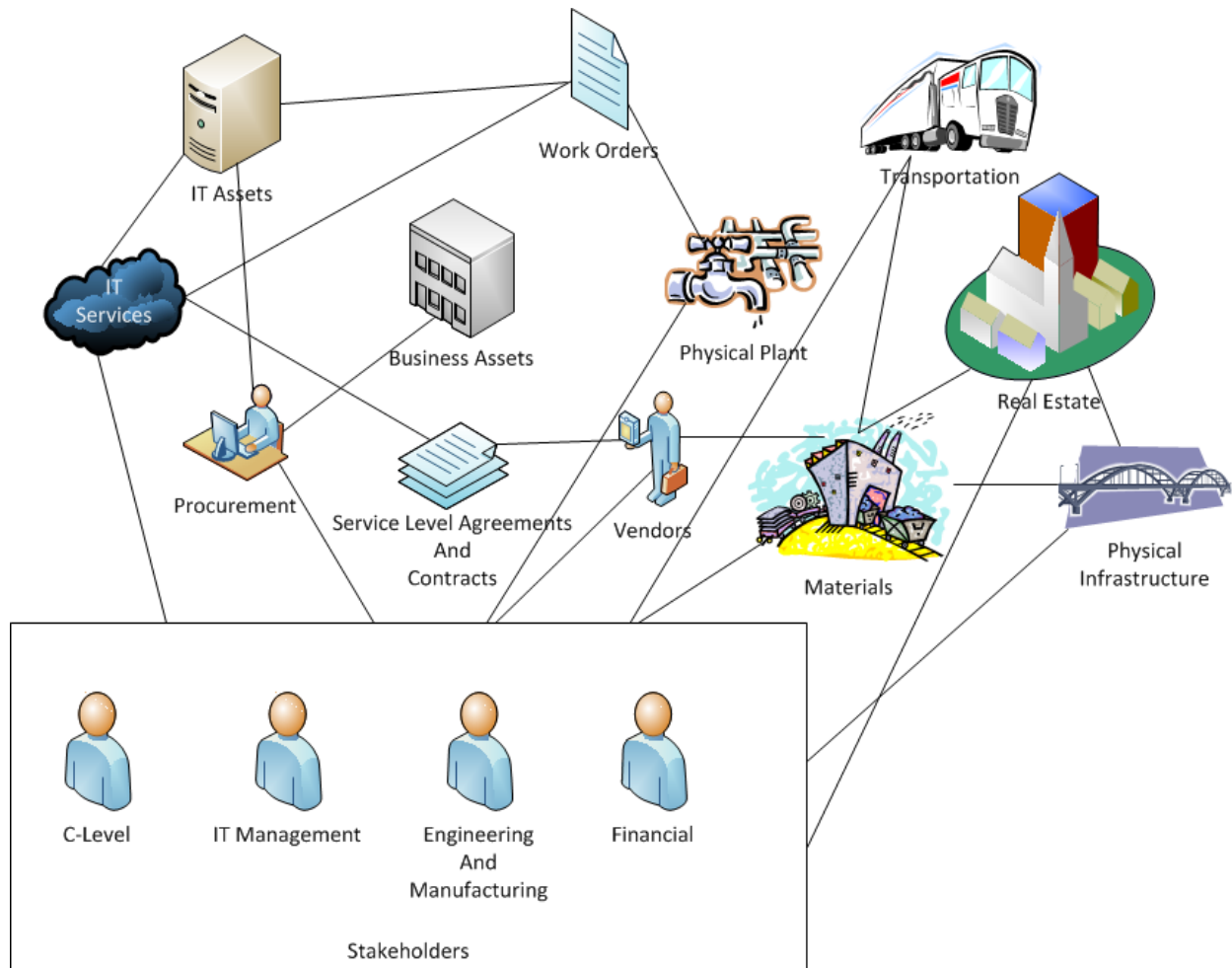
I'll be discussing assets in the broadest sense of the word, not simply traditional IT assets such as servers and software licenses. But any physical asset your company may own from copiers to drill presses to airplanes. In fact, you may have one or more of these asset classes:

- **IT Assets**—Desktop computers, servers, routers, switches, hubs, laptops, storage (from USB sticks to storage area networks—SANs), smart phones, pagers, cell phones, projectors, and software. No modern enterprise can be competitive, yet alone function, without an IT infrastructure.
- **Production Assets**—Manufacturing or production equipment such as drill presses, lathes, and tools. If these assets aren't performing, the consequences could be severe.
- **Moving Assets**—Elevators, escalators, trains, planes, trucks, ships, boats, cars, or any vehicle that is used to move people or products. Very often, this asset class is heavily regulated depending on locale requirements, which introduces a whole new set of asset management challenges.
- **Linear Assets**—Train track, road tracks, pipelines, or even network cabling fall into this category. As with moving assets, some linear assets will be heavily regulated. Certainly in the United States, such will be the case.

- **Facility Assets**—Any building or real estate asset falls into this class. This includes your physical plant as well as other physical infrastructure assets such as bridges and tunnels. Assets like the latter are also likely to be heavily regulated.
- **Material Assets**—Raw materials or any inventory item used in the production of a company's goods and services falls into this category. Some material assets may be subject to close regulation or scrutiny throughout its entire life cycle because of environmental or security concerns. This adds to the asset management challenge.
- **Non-Critical Assets**—The aforementioned assets are likely critical to the success of your business. Of course, you have a wealth of other corporate assets that should be managed as well. Often, these are consumable assets such as paper, ink, or printer toner. Items such as office furniture and equipment also fall into this category. Efficiently managing these assets is just as important from the perspective of the bottom line. For example, while you need adequate stock of paper for your laser printers, you don't want to have so much inventory that you have tied up capital. You also want to make sure you are getting the best possible price from your vendors.

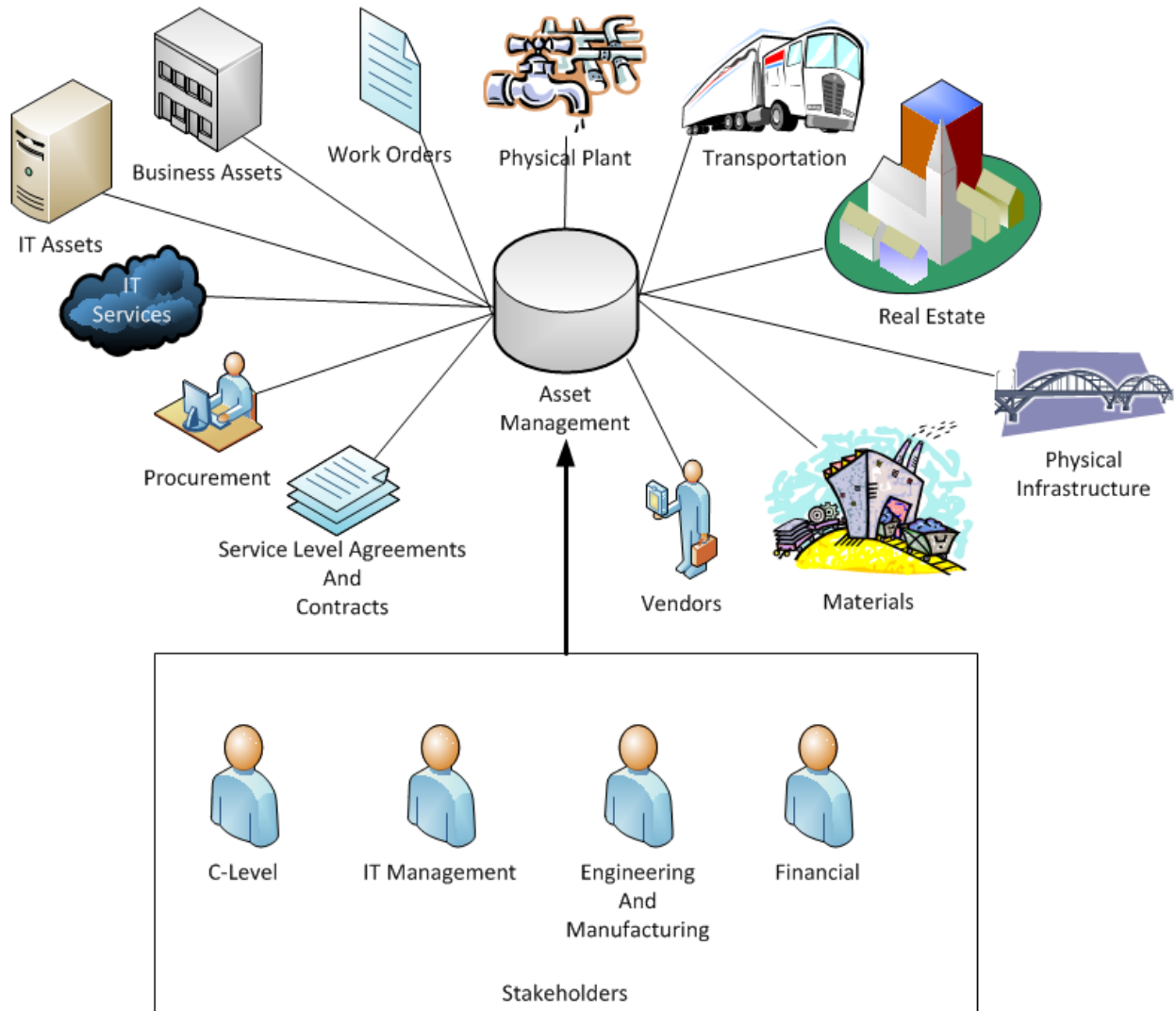
The goal of an effective asset management strategy is a unification of all these assets across the enterprise. In the past and perhaps even now, your organization most likely managed corporate assets similar to the manner illustrated in Figure 4.1.

What you have in Figure 4.1 are a variety of stakeholders (I'm illustrating a sample only) who have a vested interest in different corporate assets—each of which is managed independently. I've also attempted to illustrate interconnections conceptually between assets. Often these are difficult to manage, if they are managed at all.



**Figure 4.1: Unmanaged assets.**

With a unified and consolidated asset management solution, this chaos can be restructured into a more manageable and valuable system, as Figure 4.2 shows.

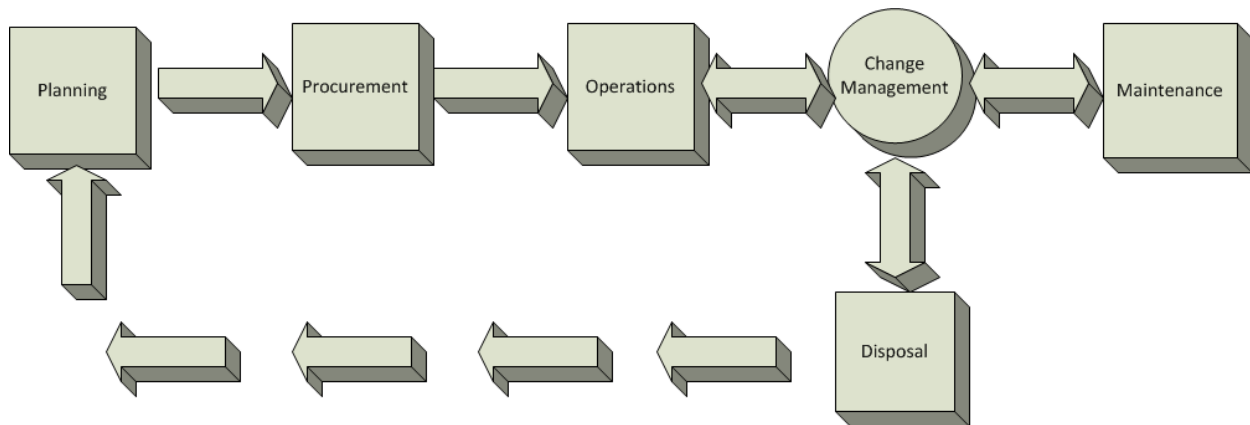


**Figure 4.2: Consolidated asset management.**

Now there is a single management source for all assets across the entire enterprise that can be utilized by all stakeholders. A unified asset management tool also makes it much easier to manage asset relationships and life cycles. To better appreciate this, let's explore asset management in a little more detail.

## The Asset Management Life Cycle

All assets, regardless of size or scope, follow a similar life cycle. Very often, these stages are managed by different parts of the organization in a siloed approach. But as you'll see, this setup might mean you are missing valuable opportunities. In my opinion, the asset life cycle is not linear (see Figure 4.3).



**Figure 4.3: The asset management life cycle.**

### Planning

The beginning of any asset is planning for its acquisition. Typically, planning is done by individual stakeholders in their own silos. Certainly, major capital expenditures are carefully planned by C-level executives, often with input from other areas of the company. But such an approach should be used for all types of assets. In many cases, “planning” involves decisions based on the best asset management strategy and related best practices as well as approving a solution to fill that need. The planning process should really be an integrated approach with other asset life cycle stages, regardless whether you are planning to acquire a new MRI scanner or a new supply of paper towels.

For example, imagine your company is planning to acquire a fleet of new delivery vehicles. Obviously, price or financing options are important. But you should consider other aspects of this asset’s life cycle with feedback from respective stakeholders. How much are annual operational costs in terms of fuel and oil? What are the maintenance requirements? Do you have existing expertise or is new training required for the proposed new vehicles? What have been your previous expenditures for operations and maintenance? Will the new vehicles require more or less? When asset planning is decentralized, making these types of informed decisions is difficult and expensive.



## Procurement

Once planning is complete for the new asset, it must be acquired. The procurement process may include Request for Proposals (RFPs), a bid process, or a simple purchase order. Part of the procurement process may also include associated service contracts or warranty agreements. These too need to be managed.

Ideally, your procurement process can include automation or workflow, which can help reduce expenses. The procurement of stock items or pre-approved consumables should be managed without costly human intervention.

## Operations

The majority of an asset's life cycle should be operations. That's the reason you acquired the asset in the first place. It serves a purpose and possesses some sort of operational or functional value. The value may be inherent in the asset itself, such as barrels of oil. Or the asset may contribute value synergistically, such as a piece of equipment on an assembly line.

If the asset isn't operating or performing, you have an investment sitting idle and providing no value to your company. Naturally, some assets have more operational value than others. A rarely-used fax machine sitting idle awaiting repair probably is not as critical as a piece of heavy construction equipment also awaiting repair.

The operational phase of an asset obviously will vary in length depending on the asset. A pallet of paper for a printing company may have a short operational phase, while a drill press most likely will have a longer phase. Very often, your goal will be to increase the operational life span of assets like these.

## Maintenance

Another phase of an asset's life cycle is maintenance. Assets need to be monitored, maintained, repaired, and otherwise made serviceable. Again, an idle asset is not returning anything on the investment you made. Sometimes, the maintenance phase is preventative, such as scheduled service on a fleet of delivery trucks. Other times, maintenance is simply fixing something that is broken.

I want you to realize that none of these phases I'm describing are linear or exist in a vacuum. During the maintenance phase of an asset, you may need to plan to acquire additional assets to implement the repair. Or a decision may be made to dispose of the asset, at which point, this action will most likely feed the planning process again to acquire a replacement or spare. The new planning process can include data from the previous asset's operational and maintenance phases, perhaps resulting in a better acquisition. Closely managing the maintenance phase of the asset is one way you can extend the life of an asset and squeeze out even more value.

## Change Management

Some assets may require change management. There may be reconfigurations, upgrades, and alterations from their original state. As with the maintenance phase, you need to be able to easily manage the entire change management history of a given asset. The change management phase interacts with the operations and maintenance phases and is commonly required to meet regulatory compliance requirements in specific industries.

You might have a file server that operates just fine for a while until you detect an impending drive failure. The asset goes into maintenance, which indicates a change. A new, larger drive is installed, which is recorded as a change for the file server. By the way, this new drive has its own asset life cycle and is now tied to the file server. The file server is brought back online and yet another change is recorded. In an effective asset management system, you can manage this integration of operations, maintenance, and change among individual assets and composites, like the file server.

## Disposal

The last stage of an asset's life is disposal. At some point, the asset has been exhausted and needs to be removed. Using the failed hard disk drive from the previous example, this asset has outlived its utility and can be disposed. Obviously, asset disposal depends on the nature of the asset. For example, disposing the failed disk drive may require special procedures to ensure that no data can be recovered from the drive. It is important to manage this process and disposal history of an asset. It may be required to meet compliance requirements and it might be useful when planning for the asset's replacement.

With increasing demands for a green economy, the disposal stage of an asset might also be recycling or recovery. For example, you may collect a number of obsolete electronic items that by themselves have no value. Yet, you may retrieve precious metals during a recovery process, thus acquiring a new asset of value.

## IT Cost Management

For many, reducing or managing the cost of IT assets is of paramount importance. You are looking for ways to reduce costs, yet meet your compliance requirements and mitigate risk. These are benefits you are seeking in an integrated asset management solution.

### Reduce Software Costs

In earlier chapters, I discussed how you can control and reduce software costs through application consolidation. Now let's take this a step further with asset management to keep close tabs on licenses and associated software expenses.

An effective asset management solution should allow you to track where your software investments are being utilized. Such information is invaluable in helping you determine whether you have enough licenses or too many. Remember, a software asset also follows the asset life cycle I outlined earlier. By managing the operational stage, you can ensure you are getting an optimal return on your software investment.

With a consolidated view of all software licensing needs, you will have a better idea of what licenses you need to remain compliant. You may also be able to identify bundling opportunities or bulk purchases that might further cut overall costs.

### Compliance

Even though you are attempting to control cost, you can't sacrifice your compliance obligations. However, managing your IT assets from a single source actually makes this task much easier and more cost effective.

Because an effective asset management strategy covers the entire life cycle of all assets, including items such as software, the change management phase is clearly visible. Instead of collecting information from a number of disparate systems, you have one application that can provide the complete history of a given asset. Management and reporting costs can be trimmed. With the right tool to coordinate the change management phase of all your IT software assets, you should have no problem meeting regulatory or compliance requirements.

### Risk Mitigation

Associated with compliance is risk mitigation. Organizations seem to be facing more and more regulatory or statutory compliance requirements. Often, the cost of failure is high. As such, this is a risk you definitely want to mitigate. A holistic approach to IT asset management goes a long way here. You don't have to worry about missing something sitting in some management silo somewhere. By breaking down these silos, you gain a sharper insight into your assets and how they are being used and maintained.

Let's take a complex e-commerce infrastructure you might have involving a number of assets. Failure or downtime runs the risk of lost sales or goodwill. But with integrated asset management that can manage the entire life cycle of the asset, you can tell at a glance how the assets are performing or what maintenance may be required to keep the system operational. You now have mitigated the risk to your company.

## Asset Governance and Management

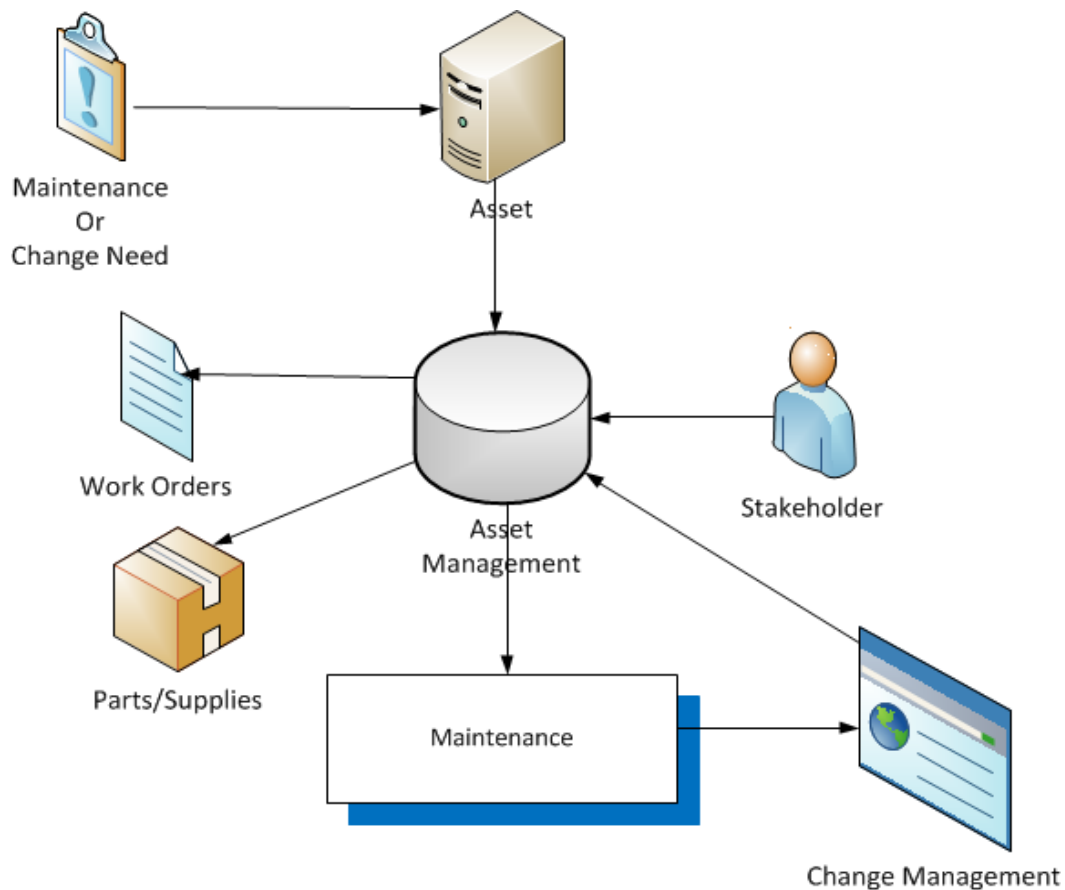
What about the rest of your corporate assets? More than likely, you have more non-IT assets than anything else. Depending on the size and scope of your organization, you may have many different asset classes distributed over a wide area, perhaps even globally. Typically, companies have fragmented asset management strategies, which is inefficient overall and certainly not cost effective. Managing all of these assets, regardless of type or location, from a single point is critical to driving down costs and increasing your return on investment for these assets.

### Achieve More Efficient Asset Maintenance and Management

One way to keep costs low is to keep your management costs down by raising efficiency. Asset managers shouldn't have to resort to spreadsheets, homegrown solutions, or even a variety of vendor-supplied management tools. These approaches are inefficient. Instead, you want to provide a single interface to all assets across the enterprise. Stakeholders and responsible parties only need to learn one tool.

They don't have to sacrifice management or oversight, only their current process. Remember, it's all about breaking down silos and creating a dynamic, service-oriented infrastructure. As such, it is very important to get buy-in across the board. Corporate management needs to realize the cost savings and competitive advantages gained. Employees need to realize how much easier and rewarding their work can be and that as the company thrives so do they.

Effective asset management should make it easier to control the entire history of a given asset, especially maintenance. Consider the concept illustration in Figure 4.4 You should be able to see at a glance what maintenance is required, coordinate work orders, and acquire necessary materials with minimal effort. Integrated asset management and maintenance offers you an opportunity to closely track work efforts and expenses. In fact, effective asset management puts complete change history for all your assets at your fingertips, not simply when an asset was maintained or repaired.



**Figure 4.4: Asset management and maintenance.**

Suppose you have a piece of manufacturing equipment that has failed. By reviewing the asset's change history, including previous maintenance, it becomes easier to determine a root cause. You can also easily compare similar assets to assist in root cause determination or ensure other assets won't also suffer the same problem.

When looking for an integrated and consolidated asset management solution, automation loops, especially when it comes to asset maintenance and operations, are critical to achieving the greatest cost savings. Very often, assets will have a service schedule based on time, usage, or some custom metric.

Consider a vehicle fleet. Manually keeping track of when a vehicle is due for scheduled service is costly and ineffective. Your asset management solution should be able to automate this process. When a vehicle asset reaches a predetermined threshold, service is scheduled, work orders cut, any parts or supplies ordered, and the only labor cost is that of the service, which should include updating the asset's change history and maintenance record.

In addition, new asset management technologies like Radio Frequency Identification (RFID) have the capacity to overwhelm you with information. (RFID helps you to identify where an asset is located and under what status it is available.)

This is not necessarily a bad thing. But what it means is that you must have an asset management tool that makes the information make sense and manages it effectively. You want to be able to use this information to make management decisions. This is the type of information that can give you a competitive advantage, so you don't want to squander it.

#### **Achieve More Efficient Third-Party Management**

Some assets may require or involve third parties. Perhaps a sub-contractor is employed to maintain an offsite storage facility. Or you may have associated service contracts or warranties. Effective asset management includes a means of integrating all of this third-party information with the associated assets.

With all corporate asset management consolidated, you can more easily see where you are spending money on third-party services—how much and how often. You can identify which third-party expenses are worth the investment and which are wasting money. For example, imagine you've purchased a 2-year extended warranty on a new asset class that you have no history with. When the time comes to renew the warranty, you can easily review the asset's history and calculate the agreement's cost/benefit ratio.

#### **Achieve Greater Prevention and Safety**

Because you have all this asset information readily available from one source, you can improve safety, reduce risk, and take preventative measures when necessary. This is safety for you and your customers. Imagine you have harbor- or pier-related assets such as cranes and docks. Certainly, any asset failure could have serious repercussions for your employees and customers.

Effective asset management means you know exactly what was maintained, how, and when. Properly maintained assets are more reliable and therefore safer assets, especially for those assets with specific preventative maintenance schedules.

You can easily view an asset's complete operational history. This information perhaps can help your engineering staff detect a problem while it is still minor. And should a problem arise, this information may be invaluable in determining a root cause and preventing like problems from re-occurring in the future with this or similar assets.

## Asset Visibility

The ultimate goal of effective asset management is to put all assets, IT and otherwise, into an integrated and consolidated solution. The end result is that you have unobstructed visibility into all assets across the entire enterprise. Such visibility offers very tangible benefits.

### Improve Supply Chain

Asset visibility can help you improve the efficiency of your supply chain. An effective asset management system places the entire asset life cycle at your fingertips for all assets. You should be able to identify what you have, where it came from, what it cost, what it costs to maintain or retain, and the overall value of the asset. You should be able to better manage inventory, ensuring you have enough of the right items when you need them (for example, spare parts). Clearly, you don't want to tie up capital in inventory any more than you have to.

An effective asset management system helps you get assets to where they need to be in the supply chain. This level of control starts with procurement and extends throughout your entire internal workflow and on to the customer. You can better optimize inventory, reduce costs, and increase efficiency of labor and processes. With your costs lower, you can pass the savings on to your customers, gaining an advantage.

A well-managed supply chain is definitely a competitive advantage. Anything you can do to improve efficiency, reduce costs, and improve quality along the supply chain is worth the investment. Consolidated asset management is one such investment.

### Real-Time Insight into All Assets

A truly effective asset management strategy will give you real-time access to all assets across the entire enterprise. This visibility is very important, especially in a tough economic climate. With visibility comes access to more information, which is required to make sound business decisions.

When things are tough, it is easy for management to make sweeping mandates like 15% cuts across the board. In some areas of an organization, 15% may just barely cut into extra “fat,” while in other areas, 15% may result in a decrease in quality or customer service. What is required is detailed asset information to better understand where there may be some extra “fat” to trim without cutting into the “muscle” of your organization. Without the right information, you may end up with deteriorating assets, lower product quality, or reduced capacity.

Real-time visibility means you can compare an asset’s performance against historical trends or baselines. Is the asset’s value being maintained? What steps could be taken to improve performance? Is there a problem that requires work or maintenance? Or has the asset outlived its life and is ready for disposal?

Detailed and real-time visibility into assets makes it easier to prioritize spending, capital and otherwise. Does it make more sense to retrofit an older plant with more energy-efficient windows now or upgrade an aging piece of manufacturing equipment? Knowing what to spend and when helps you extend the life of your assets, further reducing costs—which is especially important in a down economy.

## **The Goal of Asset Management**

By now, you should be sold on the benefits of a consolidated and integrated asset management solution and realize the vital role it plays in your service management strategy. To that end, let me leave you with a goal-oriented action plan. Use this plan when evaluating asset management solutions.

In broad terms, you will need an asset management solution that:

- Breaks down silos yet still provides management access to individual stakeholders’ management
- Is secure and integrates with the existing authentication or security infrastructure
- Is flexible and configurable without requiring a cadre of expensive consultants
- Consolidates all asset management tasks for the entire enterprise into a single source that provides the much-needed real-time visibility
- Manages the entire asset life cycle
- Integrates with existing Enterprise Resource Planning (ERP) information systems as well as with operational shop-floor systems

Let me go over a few more key elements you should look for.



## Procurement Management

You need to assess your current procurement process. How many different groups in your organization have procurement authority or responsibilities? What is your current methodology for managing purchase orders, contracts, proposals, and bids? How are orders tracked and what steps are taken for late orders? How labor intensive are these processes? Are there any potential bottlenecks? Can you identify workflows that could be automated?

You want to find an asset management solution that consolidates all procurement operations. If you have multiple purchasing areas, you may be missing out on bulk or group discounts. You need a solution that can identify what assets are being procured, by whom, and from which vendor or vendors.

I also encourage you to examine your current processes for tracking purchases and especially for handling problems. You should seek out a solution that makes this a more efficient process, again using automation or alerting when possible. All the tracking information should be associated with the vendor.

Speaking of vendors, you should look for a tool that lets you better manage vendors and their performance: Suppose in the past you purchased comparable server hard drives from two different vendors. How was the vendors' delivery performance? How did the quality of the drives compare? Do you purchase other material from one of the vendors that might lead to a deeper overall discount? An effective asset management solution should help you answer these kinds of questions.

In looking at your procurement processes, can you identify purchases that are made on a regular interval based on some metric or being event-driven? These are prime candidates for automation, which ultimately lowers procurement costs. Plus, you have the added benefit of acquiring inventory, material, or services when you need it.

Finally, if you have an enterprise management software solution such as SAP, you definitely need to find an asset management solution that integrates with it.

## Materials Management

You should evaluate and assess your current inventory tracking and materials management processes. As with procurement, how many different parts of your company have a stake in this process? What specific information per asset can be captured and viewed? What tools or solutions are they using now? What gaps exist? Are there any bottlenecks in the process?

An effective asset management solution will let you track inventory transactions closely. You should be able to tell easily what you have, where it is, and where it is going. This type of information is critical in cutting costs by eliminating excess or obsolete inventory.

Because the asset management solution is integrated, materials management can feed procurement management so that you can plan for proper inventory levels to meet demands. Obviously, in a manufacturing operation, you want to have enough inventory of specific parts or material in the right place at the right time to keep production running without carrying higher inventory costs than you have to.



Take as an example a company that manufactures ball bearings from a variety of metals. This company needs to maintain an adequate supply of raw material on hand to meet customer demand. However, because of the volatility of market prices for their raw material, they don't want to maintain excessive inventory. Based on a combination of existing inventory tracking and sales orders, new material is automatically ordered. Once delivered, the asset management system tracks its warehouse location and moves it to production when needed; at which point, a new asset has been created with added value; one that will ultimately be delivered to the customer.

Imagine a quality problem is detected with an order. Using the asset management system, the company should be able to easily trace all materials to their source so that corrective action can be taken if necessary.

Materials management could also apply to spare parts and supplies. Effective asset management means that critical production systems will always have an adequate supply of parts. Or necessary parts and supplies will be procured in a timely manner to keep production rolling without interruption or at the least, with minimal downtime.

### Work Management

Another part of your planning process should involve a detailed analysis of workflows associated with assets. Who determines what work needs to be done and when? How is the work coordinated and scheduled? How are associated materials or supplies coordinated? How much does a work task cost in terms of labor and material? You want to find an asset management solution that can simplify coordinating all of these elements.

For example, suppose your company's asset portfolio includes fixed wing assets. Following a predetermined, and often regulated, period of time, critical parts must be replaced or serviced. The asset management system knows when this maintenance must take place, orders the necessary replacement parts so that they will be delivered during the maintenance window, and automatically generates a work order. When complete, the asset management system is updated, providing a clear audit trail.

You need an asset management solution that can handle both planned and unplanned work requests. You should be able to coordinate all the necessary resources and have enough detailed information to prioritize and schedule work and maintenance activities. Oftentimes, these types of activities take place away from an office environment, so any asset management solution should provide a means of managing assets from the field.

Effective work management can help your company by

- Providing detailed analysis and tracking of tools, equipment, and resources so that you have exactly what you need when you need it
- Avoid downtime and non-productive labor costs
- Automatically schedule pre-approved or pre-arranged work tasks

Occasionally, work efforts may require contracted third parties. The work management module of your asset management solution should make it easy to manage these contracts and service level agreements (SLAs). You need to be able to coordinate and track their work efforts, especially where they might impact the quality of your product or service. Suppose you operate shopping malls and contract with a vendor to provide cleaning services. Poor performance will reflect badly on your property, making it a less attractive place to shop. These performance and quality metrics can be useful when it is time to negotiate, should you even choose to, a new agreement.

### Contract Management

In addition to contracts you might have associated with work, you most likely have other contracts or agreements associated with assets that need to be managed, such as:

- Rental agreements
- Leases
- Extended warranties
- Service Level Agreements (SLAs)
- Labor rates
- End-user licenses
- Site licenses

You may have items like these scattered throughout the enterprise with different people responsible, each using their own system. You need to consolidate so that you can identify where you are spending resources, determine what value you are getting in return, and decide where you might be able to save on costs. By integrating the contract with the associated asset, and gauging the asset's value to your company, you are in a better position to make wise business decisions.

### Service Management

In planning for effective asset management, you need to assess how service requests are currently processed that affect corporate assets. This could be as simple as a request to add a duplexing feature to a copy machine or acquiring 20 email licenses to purchasing a new delivery truck. Your asset management system should facilitate these types of requests, yet help management prioritize. You want to be able to align service requests with business objectives.

This service management requirement can tie into procurement or work management modules depending on the request, ideally automatically. The necessary materials or products are ordered, delivered, and tracked. You should be able to track every step of the original service request.

You may also have service requests tied with SLAs. Suppose a manager requests a new telephone installation for a new hire. The telecommunications department has an SLA of 12 hours to complete this service. The asset management system needs to not only manage the inventory of the phone itself but also track the SLA.

Ideally, you also want an automatic escalation process. Let's say that it's now been 20 hours since the new phone request. Automated communications should be made to the original requestor and the telecommunications manager alerting them of the failed SLA and the problem.

### Asset Management

The last part of your quest for effective asset management is to assess what you are doing now. Or perhaps the question is more about what you aren't doing. If I came into your company and asked the following questions, could you easily answer them? How much time, money, and resources would it take to gather the answers? Of course, these should be questions you are already asking, but just in case you're not, here's my short list of asset management effectiveness questions:

- What are all your company assets?
- Where are they located?
- Are they in use now and if so how?
- What is their utilization and performance?
- How much did they cost to acquire?
- How much do they cost to retain or maintain?
- What are they worth?
- Where did they come from?
- What is the history of each asset?

These are critical asset management questions that if you can't answer, are clear indicators that you need a consolidated and integrated asset management system.

You must be able to track asset details such as acquisition costs, location, work history, utilization and performance, value, associated contracts, or agreements regardless of location, business unit, or management scope. This is the only way you can determine which assets to retain and which are expendable in a tough economy. You need this information so that you can extend the life of your assets, especially those with a high acquisition cost. A solid asset management system will provide the tools and information necessary so that you can be proactive instead of reactive, avoiding downtime, loss of service, or sales.

## Summary

Effective asset management means a consolidated view of every asset and related services across the enterprise. This convergence should allow you to improve service, reduce costs, mitigate risks, and make smart, informed and better business decisions.

In addition to asset management, an effective service management infrastructure will focus on consolidation and automation. This approach to service management can apply not only to IT but also across the enterprise. With this strategy, you should be on your way to a well-managed, effective, and high-quality service management plan.

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