



## Four Essential Remedies for Slashing Tool Costs in a Tough Economy



**TOOLWATCH** *go far fast*

## Reducing Tool Costs: Hype or Reality?

In the current economic climate, executives are specifically looking internally for fast and significant cost-improvement opportunities—low-hanging fruit that can deliver immediate and measurable bottom-line improvements. Many are finding such opportunities by improving management of their tools and equipment, a process that can result in drastically reduced tool costs and improved profitability.

For many contractors, the value of their tools, equipment, materials and consumables (collectively, “tools”) runs into the millions of dollars. Tools are mission critical in that they enable employees to do their work efficiently and safely. Yet they are constantly on the move and notoriously easy to access, and their poor management leads to unnecessary theft, employee hoarding and a whole host of ancillary problems that can cripple an organization, especially in a tight economy.

**By instituting a set of processes and affordable enabling technology to better track these assets, construction companies can easily reduce tool costs by 50 to 80 percent within a matter of months, not years.** These savings are realized in reduced tool loss, improved tool utilization, fewer unnecessary purchases and streamlined maintenance.

This report expands on each of these four key areas and explains how construction companies of all sizes are using these practices to rise above the economic storm and position themselves for growth and greater competitive advantage once the economy recovers.

### The Opportunity, Quantified

To better appreciate the impact of reduced tool costs on profitability, cost advantage and business resilience, one must start with some tangible measures of the real impact of tool costs on the business.

Unfortunately, for many organizations, quantifying the impact of cost-reduction measures can be difficult. Some companies don't have the systems or processes in place to accurately measure the cost of tool loss, let alone lost productivity and other factors that drive tool costs. And many don't even know how many tools they have lost on a job or over a given period.

However, after 18 years of working with construction organizations of all sizes, and collecting valuable

hard data from these organizations, ToolWatch has been able to calculate a number of benchmarks across a wide spectrum of companies.

The first of these measures considers the cost of tool loss only, measured against hourly wages. Specifically, ToolWatch has found that **the average cost of tool loss alone (not counting lost productivity and other associated costs) averages \$0.80 per hour for each worker in the field.** Over the course of a project, that adds up to a staggering figure, and the numbers have held true for a number of years, especially for midsize and large organizations.

### \$80 Tool Turns Into \$300 Burden

Another clear area of cost-saving opportunity is **worker productivity.** Although most companies recognize that the cost of lost productivity is real and adds significantly to the actual cost of a project, it is admittedly more difficult to measure.

To illustrate the impact of tool loss on productivity, ToolWatch conducted a study in 2006 to determine the actual total cost of replacing a simple \$80 grinder. It was found that after accounting for lost productivity on the job and time spent by other employees to procure and deliver a replacement, **the actual cost of replacing the \$80 grinder was more than \$300—about four times the actual cost.**

### 50 to 80 Percent Tool Cost Reduction

ToolWatch has repeatedly found that by improving *visibility* into where those tools are at any given moment—and by increasing *employee accountability* for the tools they use—construction companies can dramatically:

- Stop tool loss,
- Improve tool utilization,
- Reduce unnecessary purchases, and
- Streamline tool maintenance.

Together, these improvements can **reduce the total cost of tools in the average midsize and large construction organization by at least 50 percent.** And 70 to 80 percent reductions are not uncommon.

## #1: Reduce Costs by Eradicating Tool Loss

### The Problem

It's no surprise that tool loss is one of the main drivers of overall tool costs. In fact, it's probably the top reason construction companies decide to implement tracking technology—and with good reason. Missing tools drive up costs, lower field productivity, cause project delays, and severely impact both project and corporate profitability.

### The Solution

Considering the complexity of tracking hundreds of tools across a dozen or more job sites, warehouses and tool cribs, the only systematic and practical way to minimize loss is to track tool movement digitally. Electronic tracking provides visibility into which employees have been assigned which tools, saving the warehouse or tool crib a tremendous amount of time while also increasing worker accountability.

In terms of accountability, digital tool tracking delivers an immediate psychological advantage that helps further reduce tool loss dramatically. Thousands of companies that have implemented digital tracking have found that within days of using this new approach, tools are suddenly returned on time. Field workers start taking better care of the tools assigned to them. And tools that have not been seen for a long time “miraculously” start showing up.

Digital tracking also allows construction organizations to measure employee tool performance and to stack-rank supervisors and field personnel according to their ability to retain and care for tools that are under their supervision.

### Benefits of Reducing Tool Loss:

- Increased employee accountability
- Improved tool retention
- Increased field productivity
- Fewer costly interruptions
- Lower tool costs
- Improved cost advantage
- Improved bottom-line performance

## #2: Reduce Costs by Increasing Tool Utilization

### The Problem

Once tools leave the warehouse, it's often difficult for the organization to determine whether those tools are still at job sites and when they're scheduled to come back. When one or more of these tools suddenly are

required for a new project, tool managers have little visibility into where they are located, whether they're operational and when they're scheduled to return to the warehouse. As a result, managers often are forced to buy or rent tools unnecessarily, lowering tool utilization and driving up costs.

### The Solution

Systematic tool management provides organizations with the visibility necessary to manage tools for optimal utilization. It allows tool crib and warehouse managers to quickly determine where (and to whom) tools are assigned, enabling them to mobilize valuable or scarce tools to where they are needed most. And, as specific project phases are completed, field supervisors can be given phased lists of tools to be returned, thereby reducing tool loss and hoarding.

Furthermore, because time-based financial costs associated with each tool can be easily tracked, field personnel are more motivated to collaborate with the warehouse for the return of unused tools. They begin to recognize that the more tools a project has and the longer they are kept at the job site, the higher the cost for the company. Higher costs directly affect project profitability, which directly impacts bonuses.

### Benefits of Increasing Tool Utilization:

- Development of an ownership culture
- Increased employee accountability
- Fewer unnecessary tool purchases
- Reduced tool costs
- Lower overall maintenance costs
- Improved cost advantage
- Improved bottom-line performance

## #3: Reduce Costs by Eliminating Unnecessary Purchases

### The Problem

Construction organizations often have to purchase tools unnecessarily because they can't find the ones they already own. This is especially common when the company is starting up a new project. The operations team knows it won't be able to track down all the needed tools across all job sites, so it buys new tools instead. Unfortunately, these unnecessary purchases erode profitability, create unneeded inventory, and raise maintenance and storage costs at a time when it has become increasingly difficult to put profits on the bottom line.

### **The Solution**

By automating tool tracking and management, companies can drastically minimize their expenditures on unnecessary tools. The increased visibility allows warehouse personnel to quickly determine what assets are out, where they are, to whom they have been assigned and when they are expected to come back. This leads to better decisions about how upcoming needs will be fulfilled.

It also saves time and wasted effort and reduces stress by not having to track down tools that are unaccounted for or to determine when they are due to be returned. Responsible individuals can be contacted immediately when tools are overdue. And lists of tools can be provided to supervisors that detail what items under their supervision need to be returned and when.

### **Benefits of Eliminating Unnecessary Purchases:**

- Reduced tool costs
- Reduced overall maintenance costs
- Improved cost advantage
- Improved bottom-line performance

## **#4: Reduce Costs by Streamlining and Automating Tool Maintenance**

### **The Problem**

In many organizations, tools and equipment must be regularly tested to ensure that they are working properly and are safe to operate. Quite often, strict adherence to an inspection or calibration schedule is mandatory and regulated by agencies such as OSHA. But this level of tracking detail and frequency can be a challenge—especially when managed with spreadsheets and paper forms. As a result, inspections often are missed and maintenance schedules aren't always followed, resulting in reduced field productivity, tool hoarding and increased risk exposure.

### **The Solution**

By having the right processes, controls and enabling technology in place, construction organizations can reduce the time and complexity of properly maintaining their tool inventories. And when tools are maintained properly, they have longer useful lives, field productivity is increased, job-site morale gets a boost, the confidence level of field personnel is elevated, regulatory compliance is greatly improved and liability is reduced.

Also, once field personnel can count on receiving well-maintained tools in a timely manner, they will ask for fewer tools. And because of the increased accountability made possible by improved tracking, they will take better care of the tools assigned to them and will be more likely to return them in good working order.

### **Benefits of Streamlining and Automating Tool Maintenance:**

- Improved safety
- Reduced risk
- Extended tool life
- Reduced tool costs
- Improved cost advantage
- Improved bottom-line performance

### **Conclusion**

Lost, stolen or underutilized tools cost construction companies millions of dollars every year in tool replacements, unnecessary purchases, lost productivity and project delays. Poorly maintained tools add yet another layer of costs and potential liability. Automating tool tracking and management delivers the visibility and accountability needed to bring down tool costs and create measurable bottom-line improvements—key imperatives in an environment where projects are scarce, credit is tight and profits are slim.

### **About ToolWatch Corporation**

Founded in 1991, ToolWatch is the world's leading provider of tool, equipment, materials and consumables management systems. Combining easy-to-use ToolWatch data collection devices with a powerful database system, its technology enables the tracking and management of construction resources throughout an entire organization, delivering significant savings of both time and money to companies of all sizes. With more than 6,000 installations in 20 countries around the world, ToolWatch applications use the most current and reliable technology to manage assets for maximum utilization and productivity throughout an organization.