



# The RET improves provisioning to dispose obsolete stock

A financial provisioning model without surprises

The RET is the main public transport operator of Rotterdam. The maintenance department is responsible for carrying out preventive and corrective maintenance activities for trams, subways and buses. Spare parts are kept in stock in order to carry out the maintenance jobs. The Logistics department suffers from (predominantly) expensive parts that have become obsolete. Keeping these parts on stock is costly, hence the desire arises to dispose these parts.

Depreciating the value of spares is only allowed to a limited extent, which means that disposing the parts involves taking the unforeseen costs. When postponing the disposal decision, the costs will further increase due to the ongoing holding costs. Gordian supported the RET in 2019 to facilitate stock disposal and minimize fluctuations in the provision. The RET is now periodically working independently on this.

## Expensive obsolete stock cannot simply be disposed without adequate provisions

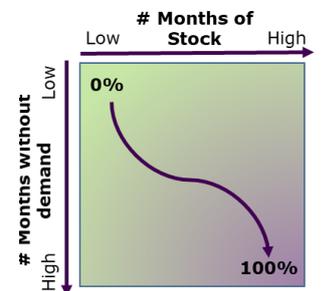
The RET is taking care of assets with a life cycle of approximately 30 years. Excessive down time costs, when spares are not available in case of a breakdown, often lead to the decision to have a part on stock.

Keeping spares on stock comes with recurring annual holding costs e.g. capital costs, storage costs and costs covering aging and obsolescence risks. When the RET still wants to dispose parts, a provision is recommended to spread the costs gradually over time. The RET asked Gordian's support to determine the required provision and facilitate the outflow of materials.



## Provision based on the probability of obsolete parts

Gordian implemented a provisioning model at the RET that complies to international laws and regulations. The model assumes that the longer a stock item has not been used, the bigger the risk to become obsolete. Therefore, the provision is built up based on a percentage of the working capital depending on the amount of months of stock on hand and the amount of months without any demand.



## The RET continued independently

Gordian delivered an Excel product including work instructions. The RET continued independently. According to the RET the new model is simpler, more conservative and thereby facilitates disposing obsolete stocks in a better way. The next step is to minimize obsolete stock, which requires a good assortment policy. This will be addressed in 2020.



Also read: <https://bit.ly/3buRYbo>



*"The provisioning model of Gordian gave the RET insights to manage obsolete stock and to facilitate stock disposal"*

*Job Salters, Business Controller at the RET*

