Making A Case For Capital Projects

By Karen Kroll

Given the dollar amounts involved in many facilities-related capital projects, facilities managers can benefit from a solid understanding of capital planning.

In this e-book you'll learn:

- How to plan for capital improvements
- Determining which assets to invest in
- Tips to make a compelling business case

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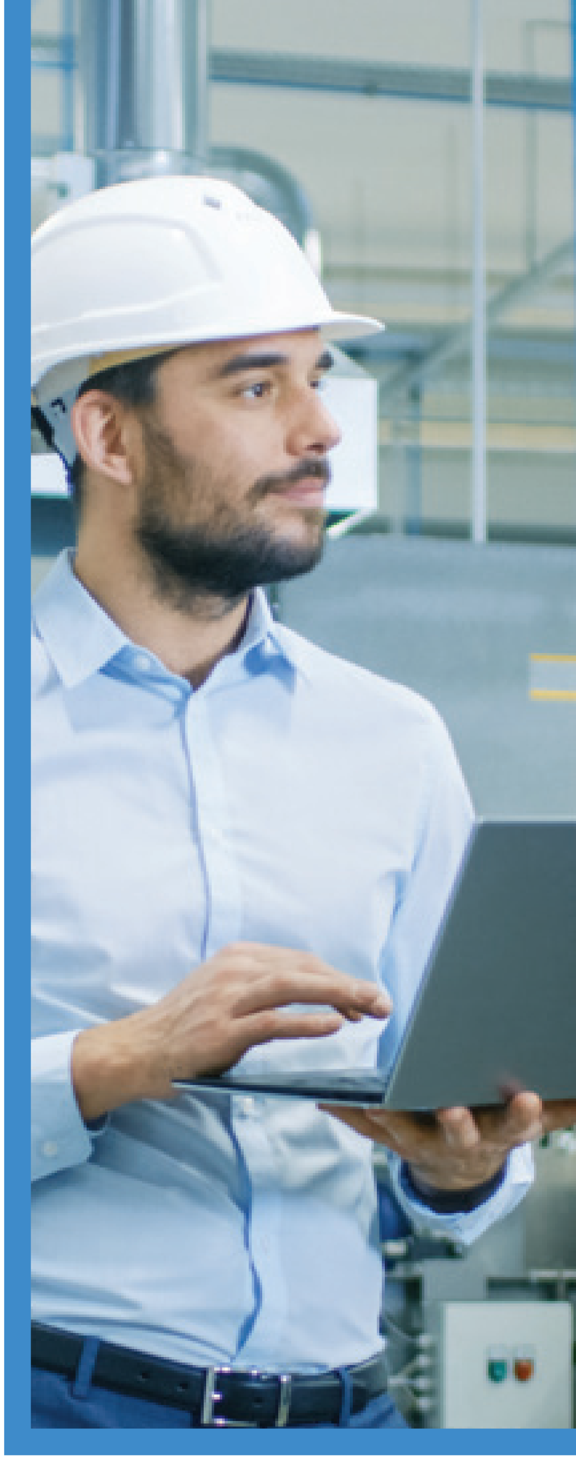
The strategic planning process is a critical step as a department or company strives to identify and then pursue its goals. Often, an essential next step is the capital planning process.

How do the two differ? As noted in the fnPrime e-book, “Add Value To Your Organization With Strategic Planning,” strategic planning refers to “finding the solutions that supports the business’s value proposition,” says Paul Head, director, PH Advisory. “You’re looking to draw parallels to the bigger picture to boost opportunities or reduce costs.”

Capital planning is the process of identifying, planning, and budgeting for the capital expenditures that will help an organization achieve its goals. Given the dollar amounts involved in many facilities-related capital projects, facilities managers can benefit from a solid understanding of capital planning.

Indeed, when respondents to a recent ProFMI study identified their training priorities, facilities managers ranked capital planning as one of the top training priorities for themselves. Similarly, facilities employees ranked capital planning as a top training need, followed by financial management and strategic planning.

Among other skills, capital planning requires knowing how to use the strategic planning process to identify worthwhile capital projects, along with the ability to develop realistic budgets and schedules for capital projects. Also important is the ability to prepare and articulate the business case for the projects proposed.



Launching An Effective Capital Planning Process

A starting point in developing an effective capital planning process is recognizing the difference between strategic and capital planning.

"One misperception is the idea that the strategic and capital planning processes are one and the same," says Stormy Friday, president with The Friday Group.

Although similar, the two functions are separate. The strategic planning process is about identifying the "right things to do," says Stan Mitchell, senior consultant with Key Facilities Management International. The tactical planning process is about "doing the things right."

In contrast, the capital planning process focuses on investments in bricks and mortar. It requires assessing the condition of the facilities portfolio to determine short- and long-term capital needs, Friday says.

To be sure, the capital plan needs to dovetail with the company's strategic goals.

"If the company has determined that it will either grow or downsize, that will impact the capital plan," Friday says.

Growth may mean additional facilities are required, or that previously unused facilities are brought into use. Downsizing might prompt leadership to divest some real estate assets. In that case, some capital projects may be needed to make the facilities appealing to potential buyers.

In either scenario, "the condition of portfolio will drive the capital planning needs," Friday says.

Facilities managers will need to assess the properties, considering the condition and lifecycle of the systems in place. Outside consultants, as well as software programs, can help with this, she says.

Deciding On Capital Investments

How can the facilities department identify the projects most worthy of investment? John Hajduk, president, Thornridge Facilities Associates and executive director of facilities services for Sodexo, suggests looking at potential capital projects in three buckets.

1. Obsolescence: What systems or buildings are coming to the end of their useful lives, and what action needs to be taken as a result?

In assessing this, it's often helpful to consult with an expert in facilities management operations, maintenance and engineering, instead of an architect, Hajduk says. The reason? While architects are experts in building design, they tend to be less involved with ongoing operations and maintenance. A worthwhile capital plan needs to consider the ongoing costs of operation.

2. Operational excellence: Even if a system isn't obsolete, it may be inefficient or unreliable, and thus, costing the organization extra money. For instance, if a facility's HVAC equipment or lighting systems are inefficient, operating costs per square foot likely will be higher than they are at similar buildings. Cleaning costs may be higher than average because the finishes require additional care.

"Investing in systems that can boost operational excellence typically drives strong financial returns," Hajduk says.

When considering the operational excellence of a system or piece of equipment, facilities professionals need to understand the principles of risk management, Hajduk says. That is, how might safety be compromised or costs increase if nothing is done?

"Ask, 'What happens if we don't do this? What are the second and third order effects?'" he says.

The biggest financial impact of a capital project comes from its operation and maintenance, rather than from its upfront investment.

The facilities team will also often need to articulate the likely impact if investments continue to be postponed. Many companies prefer to put off equipment replacements, particularly if the systems seem to be running well, and operate behind the scenes. At the same time, most assets have fairly well-established life expectancies, Hajduk says. Continually postponing updates or replacements can boost the likelihood of system failure, hindering operations and potentially creating a safety hazard, he adds.

3. Business strategy delivery: Do the current facilities support your company's strategic goals? If not, what capital projects will be needed to bring the facilities in line with the company's plans?

"There's typically a cost per-square-foot to carry out the organizational strategy," Hajduk says.

The facilities management function is connected to all other activities within a business, Mitchell

says. When identifying the capital investments that are needed, it's important to gather input from other departments and functions, as this helps in understanding how the proposed investment and change might impact other operations, he says. For instance, if a storage space is converted to an office, how would that impact both those likely to use the office, and those currently using the storage area? If new offices are added, how will that impact the IT infrastructure, building services, and accessibility, among other areas?

Also important, although often overlooked in the desire to advocate for a particular investment, is the long-term impact. This is one area in which facilities can provide context and insight, as they tend to be uniquely qualified to assess the long-term costs of operating, for example, an HVAC system. Often, the biggest financial impact of a capital project comes from its operation and maintenance, rather than from its upfront investment, Mitchell says.

Once an investment is made in new systems, it's critical to keep to a regular maintenance schedule. Skimping can mean the facility won't obtain the expected life from the asset, Hajduk says. That can mean more dollars are expended to replace it and may make future requests for capital spending more difficult to secure.

Making the Case

In today's competitive business environment, many companies are keeping a close watch on their budgets and scrutinizing all proposed capital investments. The facilities department needs to make a compelling, thoughtful business case for every project it's proposing.

"Otherwise, it's not clear if it's a project worth doing," Head says.

The business case should show how the investment will increase opportunity and business performance and/or reduce risks or costs.

To craft a credible business case, the facilities manager also needs to understand, as much as reasonably possible, the politics of the organization, Mitchell says. That often requires regular meetings with the heads of the various functions.

"Then, tell them 'I need help in making a business case for this investment. What's important to you?'" Mitchell says. "It will be hard for them to decline to offer their perspective and advice."

These meetings can help FMs make the case for the investment not only from the perspective of the facilities department, but from the perspective of the other functions across the organization who will benefit from the project.

"You make the business case by focusing on what's in it for everyone else," Mitchell says.

At times, it can help to bring in an outside consultant to navigate holdouts or obstacles, Mitchell adds. As outsiders, consultants (full disclosure: Mitchell is a consultant) often can have less emotionally charged conversations with leaders in different areas. In contrast, when someone is from within the organization, he or she is part of the politics. That can make it difficult to step back and challenge the thinking, he says.

When identifying capital investment, come up with several options: good, better, best

The business case presented needs to make sense and hang together, Mitchell says. As with any presentation, that often requires editing, gathering feedback, and practicing the delivery.

It should include a summary of the existing situation, an overview of what's needed, and an idea of how to fill the gap, Friday says. As important is the marketing piece. This generally requires conducting scenario planning. For instance, say it's clear Building A needs a new roof, and if it's not handled now, the cost and risk of the current roof failing increases.

"You have to play that up," Friday says.

Invest others in the decision-making, so they know the potential consequences of postponing the roof replacement.

"Syndicate the risk," Friday says. That way, the facilities organization isn't left hanging if a

decision is made to not go forward and the system fails. Instead, the senior leadership team will have been warned of the long-term implications of putting off this action.

When assessing potential capital investments, there's often a tendency to focus on the initial costs, says Robert Blakey, director and instructor with FM College. While that's essential, the facilities area also has to consider long-term costs, as many capital projects have lives that extend for decades.

"When communicating the strategic or capital plan, it's important to develop a language that allows for thoughtfully communicating both near-term, or first cost goals, as well as long-term goals, or the optimization of the built environment," Blakey says.

Building a compelling business case also typically requires some understanding of finance, analysis, and budgeting, since managers will need to calculate costs and plan for contingencies, Head says. Often, facilities planners or schedulers will have some mastery of these skills, since they already know how to plan and schedule jobs. With this insight, they can determine the work required from different areas and apply that to the project budget.

"Your company depends on you to help them understand what costs will look like," says Steve Smith, director, physical IT network with Arvest

Bank. “The last thing finance wants is a big budget hit that wasn’t planned for.”

This means facilities managers need to know the life of all major pieces of equipment and when they’re approaching them, Smith says. It sounds logical, but it’s easy to overlook this. For instance, UPS (uninterruptible power supply) batteries, which generally run several thousand dollars, have a lifespan of five to 10 years. It’s common to put them in place and forget to include them in the capital plan. The result? The department has to replace them when it hasn’t budgeted for the cost.

“Letting things sneak up on you is not good for the company,” Smith says.

Surprise expenditures often mean other worthy investments need to be scuttled or postponed. Moreover, failing to prepare cast facilities in a poor light.

Smith says he usually tries to come up with several options — good, better, best — when identifying capital investment. For instance, in working with a large retailer that needed to upgrade its UPS system, Smith presented one option that was more expensive but would support the company’s anticipated long-term growth, and another that was less expensive at the outset but would need to be repeated more quickly.

The Pandemic's Continued Impact

While the COVID-19 pandemic has exacted a horrendous financial and human toll, it's contained a silver lining for facilities management.

"The pandemic gave facilities a platform it didn't have before, because we need to make every building safe," Mitchell says.

For example, hygiene and ventilation have taken on greater importance.

"Suddenly, the opportunity to highlight the value that FM brings was made for us, because nobody wants to catch COVID," Mitchell says.

What hasn't changed, however, is the way in which facilities generally is not recognized for the strategic value it can bring to the organization, Mitchell says. Changing that perception requires ongoing work by all who operate within the sector, he adds.

In addition, as many companies struggled to deal with the immediate impact of the pandemic and to assess how their facilities portfolios might change, they often deferred maintenance, Friday says. Now, they're often dealing with aging facilities that haven't been maintained to the level needed.

As the country steadily arrives at the other side of the pandemic, many companies have gained some clarity, Friday says.

"Now, we need to create a path for the future, outline what we're going to do, and then create the capital plan to support it," she says. ■

Karen Kroll is a frequent contributor to Building Operating Management magazine and has written extensively about real estate and facility issues.

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