

WHITE PAPER / PRE-CAPITAL CONSULTING FOR MANUFACTURERS

GAINING CONFIDENCE IN CAPITAL INVESTMENT DECISIONS

BY Mal Warrick

Is your planned capital investment the best investment for your business? Through pre-capital consulting services, manufacturers can explore several possible futures and make sound investment decisions that best serve your organization today and in the years ahead, without expending unnecessary capital.



Growing an existing business — whether by launching a new product, expanding capacity or increasing efficiencies — typically can't be accomplished without capital investment. But, with a large amount of money on the line, manufacturers and other business owners must be confident their path forward is the best option to meet a company's strategic and financial ambitions. This confidence can be achieved through pre-capital consulting, a highly personalized evaluation provided by an outside third party that can assess a business' objectives and existing capabilities and combine those goals with a unique knowledge of the market and industry construction costs, and strategic planning skills, to identify the best course forward.

BUSINESS ADVANTAGES OF PRE-CAPITAL CONSULTING

Pre-capital consulting allows clients to evaluate their production goals and current facility needs through an objective lens to craft strategic planning and operational improvement decisions. By using an outside third party, offering several options on potential solutions and an anticipated return on investment with each option, businesses can move forward knowing they've considered all options, assessed the anticipated costs and selected the best fit for their personalized needs.

UNIFYING THE EXPECTATIONS AND NEEDS OF MULTIPLE STAKEHOLDERS

Many industries, including food and consumer product and other manufacturing industries, conduct daily operations in functional silos such as finance, operations and marketing; however, capital improvements often impact more than one of these groups. Without a third-party perspective, the group requesting an investment may fail to thoroughly consider how the decision will impact other stakeholder groups or the investment's long-term implications.

The quality discussions spurred through pre-capital consulting allow for needs and perspectives from all silos to be considered. Once each silo is armed with different capital investment options that take into account everyone's critical considerations, upfront costs and the potential return on investment can be determined. Then they can work both optimally and collaboratively to

determine which option will meet its current needs and serve the company well in the long-term.

For instance, pre-capital consulting can be used to assess the proper level of automation for a business by balancing equipment and construction costs — and level of upfront investment necessary — with potential operational savings that could be earned through improved efficiency and lower workforce costs.

SUPPORTING QUALITY DECISIONS FOR PROJECTS WITH SHORT TIMELINES

Pre-capital consulting can be valuable in manufacturing industries, particularly food and consumer products. That's because capital projects often happen on a shorter cycle and clients may need to make informed decisions quickly to remain competitive or get a product out to market within a very short time frame.

Depending on the complexity of a situation, pre-capital consulting can typically be completed in just eight to 12 weeks and gives clients the data they need to make informed decisions from the start, without adding significant time to the schedule.

REVISING THE SCOPE OF WORK BASED ON COMPANY GOALS OR FINANCES

Manufacturers may already have a capital improvement project in mind, but that project may not be the best solution to meet the company's goals or may not even be possible within a given budget.

Pre-capital consulting considers multiple scenarios and their cost impacts before expensive preliminary or final engineering and construction begin, helping determine whether the planned project is the appropriate solution or if another option would be more advantageous.

ASSISTING WITH THE PHASING OF FUTURE PROJECTS

Pre-capital consulting can include a master planning exercise for businesses, allowing them to carefully plan when capital improvement projects should be phased based on peak operations periods or business growth projections.

For example, a proper solution for businesses experiencing steady growth may be a phased approach to a capital improvement project that builds in versatility and allows

the building to grow as the company grows. In this case, building design can be influenced by the potential to add manufacturing space into a warehouse space in the future or the potential to add warehousing space into yard space.

This consultative service puts the business owner in a position of power to make an informed decision about the money that will be spent after considering the market conditions, construction costs, options to improve operational efficiency, and current and future business objectives. It's a service that doesn't require significant time or money but has the potential to deliver big dividends in the end.

FACTORS TO CONSIDER

Effective pre-capital consulting needs to take into consideration the following elements when key decisions are being made:

PRODUCTION AND SHIPPING REQUIREMENTS

The assessment of production and shipping requirements begins with a look at the current situation within a business and then expands to consider how production and shipping could be impacted in the years ahead. To get an accurate picture of the current climate, it's important to first assess the current volume and whether customer requirements and demands are being met in the existing capacity within a facility.

The next step is looking ahead and identifying the trigger points that could cause volume to exceed the current capacity. These trigger points could include aspects such as the launch of a new product, changes in shipping or operations that could add complexity, or growing demand. In this case, authentic discussions with the sales and marketing silos need to happen with the operations, engineering and finance silos.

Now, an assessment of current systems can be conducted to determine whether it will meet the demand in the long run. Even in a scenario where volume is flat, adding new technology or automation could drive down labor costs, which could make investments worth considering.

NUMBER OF SITES AND THEIR LOCATIONS

As time goes on, so does the need for manufacturers to consider the number of sites they operate, their locations and whether the network is continuing to serve

the company well. If a company is operating six aging production facilities, would it be better to centralize productions to just three facilities and add capacity? Would suppliers consider relocating so manufacturers could focus on potentially building plants closer to consumer or customer growth areas? These are the types of questions that should be answered at least every one to two years as companies aim to be more competitive.

PROCESS IMPROVEMENTS

This consultation is about evaluating options to improve efficiency, but the solution may not always be a costly capital project. Before any capital investments are made, it's important to identify whether a manufacturer's goals can be achieved through simpler — and less costly — process improvements. Perhaps reductions in "minor stops" and "breakdowns," with better maintenance and focused improvement events, can increase capacities. If so, why not do this first?

Experienced and knowledgeable professionals can evaluate the current process using diagrams that chart the flow of materials from the time they enter a facility, through production, all the way to shipment out the door. This process identifies problem areas, or pinch points, where the flow is being disrupted. It also highlights opportunities to increase efficiency, whether by installing new technology or improving maintenance or operating systems. It is recommended that any operation considering capital investments first deploy methodologies to optimize its current operation first.

RATE OF RETURN ON INVESTMENT

Capital investment planning evaluates different levels of investment and how each level may translate to savings opportunities or expanded capacities for a client. Calculating, even in a basic sense, the return on investment for each option gives businesses the data needed to compare and contrast each option and determine the best strategy going forward.

Rate of return on investment figures are calculated by considering factors such as depreciation, labor costs, sales projections and equipment costs for each option. For instance, pre-capital consulting could examine multiple levels of automation by comparing the upfront costs and the benefits derived from each option to determine which level provides the best return on investment. Targets for

future methods, such as process reliability percentage, should be established and committed to up front.

OPERATIONAL VERSUS CAPITAL INVESTMENT

Before large capital improvement projects are launched, manufacturers should first consider whether less costly, and often less invasive, operational investments can be made to achieve the desired outcome.

As discussed, pre-capital consulting should include evaluation of simple initiatives to improve efficiency. Adding another shift, running six days instead of five or changing maintenance strategies can have a breakthrough impact on operations. These changes may not be enough to reach a company's goals, but in some cases they may prevent unnecessary spending. Labor availability on third shift or Saturdays may be an issue, but regular evaluations should take place.

CONCEPTUAL VISION OF NEW OPERATION

Providing a conceptual vision of the new operation lays out several possible futures for a company and helps plant leaders or key executives decide the direction for their business.

This conceptual vision could include details about how much space is required for utilities under each option, what the infrastructure may look like around a production facility or what kind of office space it may have. It helps create a realistic and holistic view of the future ahead and how the suggestions could alter day-to-day operations.

The good thing about developing multiple conceptual visions and/or layouts is that the process is inexpensive in relation to preliminary engineering. It also generates alignment and energetic discussions among all participating silos well before leadership teams feel the pressures of capital planning decisions.

MASTER PLANS FOR PHASING IMPROVEMENTS

Master planning provides another view into the future, but this aspect of pre-capital consulting delves into the details of how to phase capital improvements based on peak production periods, capacity needs or financial resources.

Master planning can be done at the line level, plant

level or can even include multiplant long-range thinking based on the individual client's needs. Pre-capital consulting can be completely customized to each client, considering the most essential aspects for each business and determining where it'd like to go and how it'd like to get there in the years ahead.

SUMMARY

Capital investment projects are costly undertakings that shouldn't be entered into without careful thought and consideration. Pre-capital consulting is one tool that enables manufacturers to seek outside assistance and experience to identify key company goals, current financial resources and optimal strategies for moving forward to achieve their goals. This thorough and highly customized process allows manufacturers to compare and contrast several possible futures to confidently determine a solution that meets their business, operational and financial objectives.

BIOGRAPHY

MAL WARRICK specializes in supply chain operations and plant management for Burns & McDonnell. His broad skill set and experience includes master planning, supply analysis and feasibility studies at the production network, supply chain, plant and operational levels. Mal has led more than 14 pre-capital planning engagements and consultations for leadership teams and executives in decision-making capacities for major capital spends.

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