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Feature

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Looking at the Big Picture

Consider making a philosophical shift in strategic facilities management

Since our modern restaurant industry was born, the way we manage our assets has remained relatively unchanged. Today, we have an opportunity for an entirely new approach to strategic facilities management, through comprehensive lifecycle assets management—a methodology that has the potential to transform your business. In this article, we'll take a closer look at the cultural shift that is occurring as restaurant organizations adopt a new approach to the facilities management discipline.

First, let's consider where we've come from. The U.S. restaurant industry began a pattern of dramatic growth following World War II. Initially, chain restaurants benefited from the growing popularity of the automobile. People and their families traveling long distances by car welcomed the familiar site of brand-name restaurants.

The national corporate chain restaurant industry truly began to flourish in the boom decade of the 1980s. There were plenty of hamburger chains and diner chains dating back to the 1950s, but the whole concept of going to a casual restaurant with your family, having a beer and ordering inexpensive food that makes everyone happy is still remarkably new. In fact, when Larry Lavine opened the first Chili's in 1975 in Dallas, people lined up around the block on a daily basis just to eat a bowl of chili and drink a Falstaff beer margarita. Then, Norman Brinker took Chili's public in 1983, and the game changed for everyone.

The primary focus for these trendsetting restaurants was new unit development and menu expansion at as rapid a pace as their infrastructures could support. In the mid-1980s, key branded concepts like Bennigan's, TGI Friday's and Chili's Bar & Grill were building at a rate of 200 restaurants per year.

Facilities and construction management began to gain more and more traction. This work was being done behind the scenes with little fanfare, as the focus was on getting new restaurants built in new markets. Facility managers were not afforded the time to get in front of the issues that were causing the restaurant operations to be less efficient and lose maximum profitability. They were tasked with finding a stop-gap resolution and then moving on to the next fire.

This was due in large part to the boom phases of development. Many restaurant executives weren't concerned much with what were deemed to be minor issues in equipment and design. They had their sights set on the long-term view of unit and same-store sales growth.

From 2009 to 2010, the economy took a downturn, and future restaurant development slowed to a standstill. Many companies felt pressure to take an in-depth look at their portfolio as negative head winds started surfacing in areas of the P&L that were not expected previously. Energy and fuel costs escalated, food shortages began, commodities prices soared, labor wages increased, health care reform loomed, baby boomers began losing investments, and millennials started outpacing the boomers as the main customer base. The executive level had to make decisions to show unit-level growth. Their decisions were centered on the following areas: menu development, remodel-refresh-rollout programs, unit closures and how to best account for their aging assets.

Restaurant executives started asking questions regarding repair and maintenance expenditure and wanted justification as to how and why these dollars were affecting unit-level operating cost. These questions facilitated a need to start collecting data. Many restaurant facilities departments started exploring ideas on how to do this. Other industries were already working with CMMS, work order management and call center management programs in an attempt to capture their true expenditures.

To truly answer these questions with validity, facility managers need real data borne from true fixed assets management. It is not too late to start collecting this data, but the desire must come from a change in management philosophy from within the facilities department. Due to the evolution of the professional discipline of facilities

management, it may make sense that the facility managers are the last to join the development department's party. But now that they've been invited, they must bring more than practical experience and anecdotal assessments.

The Right Analytics Most people have seen the movie "Moneyball." One of the more prescient lines in the film is Billy Beane's statement, "You're not solving the problem. You're not even looking at the problem." We need to ask ourselves, "Are we looking at the problem? Are we asking the right questions?"

Many times we find ourselves responding to consequences and not causes. In today's business environment, we need to not only know where the money is going, but why it's going there. We know we are on budget, but can we be certain it's the right budget?

At its most basic level, the philosophy of asset management is the art and science of making the right decisions and optimizing the delivery of value by data inputs and analytics. How an organization manages its assets has multiple effects on a company's finances, from tangible costs to neglected depreciation.

There is an ebb and flow when it comes to repair and maintenance and capital budgets. Sometimes the allocation of funds is in one area or another. This does affect decision making when it comes time to make an educated decision on repairs versus replacement. There are a multitude of other factors that will contribute to a facility manager making decisions on what needs to be done to ensure operational and economic efficiency. Verifiable, objective data can make this decision-making process more efficient.

A Seemingly Simple Scenario You've received a quote to repair an asset that amounts to \$750. The contractor advised you that the unit is 4 years old and in "fair" shape. This piece of equipment generally has about a five-year life span. The criticality and effects on operation are of limited to moderate impact. Without asset-tracking data, the decision to repair versus replace is almost wholly subjective and made on certain assumptions and opinions coupled with numerous phone calls, emails and follow up.

What if there was pointed and verified data readily available, along with a decision-making tool to help you make an educated and rapid decision based on organizational goals and operational efficiency? The data may look something like the following:

In this scenario, making the repair may make the most economic sense based on the data:

- Repair will bring total spend to date to \$3,164.06 and 71.9 percent of purchase price.
- There is a remaining EUL of one year and depreciation expense of \$880.
- The unit is in fair condition and will be operational after the repair.
- The unit will be operational within a short amount of time.

Subjective decisions are still made in conjunction with objective data. For instance, if the total spend to date was accrued over the last 12 months, a facility manager may very well opt to replace this piece of equipment based on trending and imminent failures. Therefore, customizable thresholds can be set within the objective data to help make these decisions with a lesser degree of subjectivity.

Any system set in place would need to be adaptable to multiple organizational structures and goals. For instance, the financial machinations of a publicly traded company are different from that of a privately held company. Depreciation schedules vary and can be affected by legislation and regulations.

Fixed Assets Lifecycle Management Adopting a lifecycle management philosophy will certainly involve collaboration across different departments or disciplines to achieve the best sustained return on investment in the selection, design, acquisition, operation, maintenance and disposal of a broad spectrum of assets within the organization. Whether you are adopting a "whole of life" approach to asset management or the "one-time" transactional approach to assets procurement, it still requires a multi-step process to be analyzed and thoroughly vetted.

There are eight asset lifecycle phases that define a true understanding of fixed assets lifecycle management:

1. Needs Identification – Why do we need it, and what is its purpose?
2. Planning – How will it fit into the layout based on size and efficiency?
3. Design and Engineering – What are the design criteria and specifications? How do these align with the building infrastructure while meeting design specifications?
4. Procurement – Acquiring assets based on need, plan and design while adhering to a set budget
5. Commissioning – Proper installation and commissioning of the asset

6. Operations – Operating, maintaining and continual monitoring of the asset
7. Modifications – Potential upgrades or the addition of efficiency systems/components
8. Decommissioning – Retirement and disposal of the asset at the end of the lifecycle

For most organizations, the monitoring and tracking of any asset throughout its lifecycle is the largest barrier to entry for implementing a robust lifecycle management program. However, this is the most important data we will need to make educated decisions and provide valuable feedback to the executive budget discussions. Acquiring existing asset data, values and inventories is difficult and could be costly upfront. However, these costs must be balanced against the valuable data and financial information that will be provided once the assets are catalogued and capable of being monitored.

Management of Risk The physical assets that comprise the installed capacity of restaurants have inherent risks and the potential for failure. In addition, they have the potential for off-specification operation that could result in safety issues, poor product quality, lower output or increased costs due to loss of product, repairs, etc.

That means risk management cannot focus solely on the failures of an asset. Many risks are the result of design inefficiencies, improper installation and operating practices. These must be considered in any risk management approach. The criticality of the asset and the level of risk must be prioritized for risk management to bring value to the organization.

Warranty Lifecycle Management Over the past 10 years, the average warranty expense rates for professional food service equipment have been less than half as much as for home kitchen appliances, according to a 2013 report conducted by Warranty Week. While some may say this is due to product improvements or less expensive repairs, this actually could mean that many organizations aren't realizing the full breadth of their assets' warranties. This could also be due to inadequate risk management during asset lifecycle phases, which may be causing some of the repairs to not be covered under a manufacturer's provided warranty.

Despite the burgeoning growth of the restaurant sector in the last few years and an increase in equipment sales, warranty accruals (reserves) remain remarkably level for the top reporting manufacturers, according to the report. Does this mean they are making a better product with fewer failures, or does it mean the end user is not fully realizing an asset's respective warranty?

What this does reveal is that each organization must be responsible and fully engaged in realizing and tracking their respective warranties. From the manufacturer to the installing contractor to the service provider, warranty management is an integral part in reducing costs and expenditures for restaurant fixed assets.

For example, a large, publicly traded restaurant group was afforded an extended and specialized warranty from an equipment manufacturer. However, the manufacturer was unable to effectively and consistently track this specifically designed warranty. In turn, the restaurant group was not able to realize many of their warranties due to this inefficiency. They ultimately ended up paying for services that should've been covered under warranty. This scenario could have been relatively easy to avoid if the equipment's lifecycle had been tracked effectively.

The Benefits of Lifecycle Asset Management Facilities professionals are being tasked to an ever-increasing extent with defending repair and maintenance expenditures, tightening budgets and justifying why funds should be allocated to their respective arenas. The benefits of applying an asset management program are plenty:

- Flexible and balanced facilities management program
- Predictable annual repair and maintenance and capital budgets
- Determines need and efficacy of preventive maintenance programs
- Identifies and dictates appropriate depreciation and estimated lifecycle
- Total cost of ownership
- Failure types and trends monitoring based on asset
- Asset evaluation for replacement earmarking
- Warranty management
- Evaluate true cost of value engineering practices

Mike Snyder has managed in the restaurant industry for 26 years and has served as the Senior Director of Development and Facilities at Corner Bakery for the past six years. Leading the creation of a concept has challenged Snyder to fully engage in uncovering the values of asset lifecycle management. Erich Munzer is the President and Co-Founder of Ecotech Refrigeration & HVAC Inc. Munzer and Snyder will present this topic at their session at RFMA 2016.