The Bottom Line

Jack McNertney

How Red Lobster approaches capital planning and spending

Welcome to FM Project Profile, an interview-style series in which a restaurateur spotlights a major facilities project. By discussing one of their most memorable facilities jobs, our members hope to share insight and inspiration. This month's profile comes from Jack McNertney, CRFP, with Red Lobster.

How many company restaurants and facility managers does Red Lobster have? 704 reastaurants in the U.S. and Canada. There are 11 facility managers and 1 project design manager.

For store capital planning, do you budget yearly or by another timeframe? Annually. Our fiscal year runs June through May. Audits are performed between July and February, and these roll up to drive the plan for the following year.

How is the store capital planning completed? Facility managers perform an annual audit. Audits roll up into Oracle, and we determine need versus budget. Once we allocate budgets among the divisions, we pare the requested needs to meet budgeted guidelines.

Guest-facing projects always receive first priority. We have detailed tracking on carpets, roofs, HVACs, parking lots and other major assets. We use financial data, lease terms/expiration/ options, guest counts, EBITDA and other variables as part of our decision-making matrix. Operations and the vice president of facilities both weigh in.

How many items are reviewed during the restaurant audit? There are 105 questions with drop downs. We focus on site, building envelope, roofs, and mechanical and refrigeration systems. We own every asset improvement initiated, plus large equipment (dish machines, ice machines, conveyor ovens, walk-ins, etc.).

Are there any non-facility items in the audit, such as new wall coverings, furniture or storage sheds? Yes, we include the entire building and all assets attached to it.

Approximately how long does it take for a facility manager to complete and input the audit? The audit takes about three to four hours, and input takes about an hour. Once the audit is uploaded, it is shared with operations (the general managers and the directors of operations). Operations is asked to address items within their control, and the facility managers handle the rest. Many projects are done on the spot and never make it to the audit. We refer to these as non-negotiables. If we find items that meet this criteria, they are acted upon immediately by the facility manager. Non-negotiable items include things that impact team member and guest safety, the brand, as well as health department/AHJ requests, electrical and ensuring all equipment is functional.

Does operations have any input in the audit or yearly plan? Yes, they always get the opportunity to weigh in. Sometimes these requests are "nice to dos"; sometimes they are things not visibly evident during the audit. General managers and directors of operations are given the opportunity to join the team during the audits. We use these as teaching moments, too.

How is a final budget calculated? Initially the brand provides a target number. I generally divide this among our eight divisions based on two-year historical spend, CPI indices and other variables. Budgets are broken down into several categories:

1. Planned projects that my team executes (from the audits)

2. Unplanned projects that pop up throughout the year, such as emergencies or equipment failure

3. Back office: a small fund controlled by the general manager that meets capital criteria

4. Equipment: anything not planned (fryers, microwaves, hot wells, grills, reach-ins, soup cookers/warmers, etc.)

5. Corporate initiatives, such as fire protection system upgrades, alarm system upgrades, etc.

6. Corporate contingency: special projects (EMS, HVAC proactive replacements, etc.)

This budget does not include remodel budgets, kitchen remodels and other corporate initiatives that are funded separately, yet executed by my team.

If the final capital budget comes in lower than what is required by the store audits, how do you determine whether to eliminate or put a hold on projects?

The process is:

• The vice president of operations weighs in as well as the director of operations. The VP of facilities calibrates the projects and costs with the facility manager's and budget meetings are held to finalize the annual plan.

• Significant investments, projects above $50,000, require finance review and E-Team approvals via a Capital Project Review. This is circulated at the beginning of the year as a bulk project review. Once the final corporate capital budget is approved, are there any other internal approvals necessary to originate the projects and begin the work? Not really. As unplanned projects arise through the year, the spending authority for each level in operations reviews and approves. The entire work flow is done via Oracle Project Manager.

What department "owns" the store capital budget? Facilities owns and is held accountable for the budget.

What is the approval process for emergency capital projects? It follows the same Oracle process flow and is based on hierarchy approval levels.

As a percentage of sales, what is the normal average capital amount per restaurant? Approximately 2 percent.

How is the store repair and maintenance budget initiated and approved? It's based on historical spend and adjusted annually for CPI increases. The restaurants are held accountable to manage the budget. We do not utilize any CMMS.

Does facilities have any input and/or control in the restaurants' repair and maintenance budget or spend? Yes, facilities owns waste removal, yellow grease rendering, grease trap pumping, fire protection, exhaust cleaning and grease trap pumping across the portfolio. The general managers and the directors of operations manage the bulk of repairs until the project becomes complicated.

Jack McNertney, CRFP, spent 17 years in operations within the QSR industry before moving to facilities. He has spent the last 25 years in facilities with Long John Silver's/A&W and Yum Brands and eight years in casual dining with Darden and Red Lobster. He is the former Chairman of RFMA and spent five years on the group's Board of Directors. He co-chaired RFMA Gives for three years, and he currently serves on the RFMA Advisory Council.