From The Inside Out

Jeff Dover

A Capital Idea

Strategic capital planning can position your facilities for long-term success

How is capital allocated in your restaurants? Is it being spent on an as-needed basis? Is it only being used for life/safety projects?

For restaurant facility professionals whose job it is to protect company assets, having unlimited capital would be a blessing. Unfortunately, it doesn't work that way.

Most restaurant chains look at capital spending on facilities-related items as a cost with little or no return. CFOs prefer spending in areas where there is a pre-determined return on investment. Facility projects are sometimes difficult to quantify, but it can be done with proper data and documentation. Just as preventive maintenance programs have shown they save valuable repair and maintenance dollars when completed properly and in the correct frequency, capital spending on the building, grounds and equipment can save money versus repeated or major repair costs.

The Importance of Audits

Some companies budget capital from what has historically been spent over the previous years. With aging assets, this is an inefficient manner in proper financial resource allocation.

The first task in getting a good handle on what is required for capital needs is completing a full restaurant audit at each location every year. The audit needs to be comprehensive enough to include the existing condition and replacement or capital repair costs of all major equipment, including the building, parking lot, sidewalks, roof and so on.

Prioritizing each item is a must. Does the potential project need to be done during the next 12 months, 24 months or 36 months? By prioritizing each project, you'll better understand your spending needs for the next one to three years. You'll also give the financial decision makers a proper view of what the actual needs are and where negotiations can take place when developing the budget.

Any emergency projects that directly affect the employees and customers should be taken care of immediately. These could be related to health department issues and brand damaging items.

The audit should be completed by the facility manager responsible for the store, along with operational input from the restaurant management team and area director. The audit should take anywhere from four to eight hours to complete and compile. Take photos of all items that are in need of major repair or replacement. All audits then can be uploaded to a software program that can sort data in many different ways. The program should be able to provide reports on overall capital requirements, regional needs and specific projects—such as roofs, parking lots, ice machines and HVAC—as well as project priorities. It also needs to sort by required timeframes: one year, two years and three years.

The Budgeting Stage

The next step is preparing and finalizing the budget. Several factors need to be considered for each item per location. First, vet those projects that need to be completed during the next 12 months and are directly involved with customer and employee safety. This could include parking lot or sidewalk replacements (slip/fall issue), floors, electrical upgrades, fire or security system replacements and exterior doors.

The next items to consider are projects that are directly perceived as guest driven, such as replacement wall-covering, carpet, furniture and lighting. Operational input can be very valuable here, as restaurant facility professionals are usually more in tune with other areas of the unit. The last projects for review are the major equipment replacements, such as roofs, HVACs, walk-in coolers/freezers and water heaters, etc.

In determining the final budget, several factors need to be considered in the decision-making process, such as lease terms/ expirations, trending of financial performance and guest counts. Restaurants with leases that are not going to be renewed will only require emergency projects. Other long-term investments, such as parking lot overlays and roofs, will require deeper analysis and discussions.

The Capital Plan

The entire facility's yearly capital plan then can be broken down into three components:

> Planned: These projects are normally completed by the facility manager. National or regional grouping of the same types of projects will result in better pricing from contractors. Equipment replacement can work the same way. For better pricing, complete projects during the slower times of the year. For example, purchase and install replacement A/C units in the fall and winter.
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> Emergency: This bucket of capital is determined by the past several years of emergency capital. Depending on the age of equipment and the number replaced, each unit will need to be evaluated on the condition of all its cooking equipment, refrigeration, water heaters and so on to determine a budget. With good asset accounting data, it should be easy to determine the age of each piece of equipment, what's left on the books, how much useful life is left and what repair costs have been. Items such as water heaters and refrigeration units should be replaced prior to total failure, as this will keep the restaurant from shutting down during an emergency.
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> Special projects: This capital fund should be used for company-wide remodeling, equipment rollout and system or equipment testing for items like EMS, special cooking equipment and lighting. It can be tracked internally for ROI purposes.

In most companies, there will be another capital component that covers new store construction. However, facilities' involvement is normally minimal.

Capital spending is a very important part of a restaurant's success, especially for facility professionals who are tasked with protecting company assets. It's best to understand what can and should be included and to work closely with internal finance department personnel to develop and monitor the plan.

I'm always looking for feedback. Feel free to contact me at (972) 805-0905, ext. 3, or email jeff@rfmaonline.com.

Dover and out.

Jeff Dover's facilities career started in 1985. He has been employed by several major chains (Ponderosa, Steak & Ale, Bennigan's, TGI Friday's, Fuddruckers and recently Five Guys Burgers and Fries). His technical education enabled him to take the lead as energy manager, facilities manager and director of facilities at the various brands.