A Guide To Capital Planning

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Getting the most for your money

For any facility manager or director, capital planning is normally a yearly adventure that involves lots of research, documentation, educated guesswork and an adaptable plan. In the August/September issue of Facilitator magazine, Jack McNertney, CRFP, wrote a great Facility Manager Profile on capital planning and budgeting and how Red Lobster approaches this process. It was an informative read with lots of good information. I am going to take a different approach and discuss how to put a capital plan together when you do not have field facility managers to perform audits and provide feedback.

Getting Started

Capital planning is typically an annual event completed three to four months prior to the beginning of the new fiscal year. On occasion, companies may put together a three- or five-year plan, but normally the plan covers one year.

Some companies may divide their planning and budgeting up two ways: capital expenditures and capital upgrades. The difference in these two types of budgets is that capital expenditures include all project work, re-images or remodels, and any capitalized R&M work performed. Capital upgrades include equipment, refrigeration, AC units and corporate rollouts that involve new products to replace existing ones.

Any successful capital plan requires tools for prioritizing, determining the risks and using optimal timing. What is the payback, what is the ROI and how fast do you achieve ROI? All of these factors come into play. To determine how and where the money will be spent, you'll have to consider the status of the lease, forecast for the economy, previous year's sales and com petition in the market.

Some companies use the National Restaurant Association's Restaurant Performance Index (RPI) as a guide in setting their plans for capital spending. The RPI tracks health and outlook for the restaurant industry, working from a base of 100. A value over 100 shows indicators are healthy for restaurant expansion, while a number below 100 represents a contraction of key indicators.

Determining the Need

So without facility managers in the field, how does one determine what is needed? Your operations staff will play an important role in making those determinations.

Have each location put together a list of needs, with help from their directors, regionals and vice presidents. Be sure to give them guidance on what you are looking for; for instance, what pieces of equipment need to be replaced or what parts of the exterior of the building need upgrading. Remember that the more information you provide on what you need and how you need it, the better it will be.

It is also important to let the operators know all items will not be approved as there is one pool of money, and it has a cap. It is also helpful to set up a scale of "must do," "need to do" and "want to do" items to determine the urgency.

In lieu of not having field people, you can also reach out to your to p and most respected vendors to provide feedback on the most critical needs for your properties. Those vendors are in the locations most often and have a good sense of the restaurants' needs.

If you are using a third-party management system, such as Service Channel, Corrigo, Blue Sky or Office Trax, you can pull a variety of reports to see where the spend is currently going and where the trends lie.

Making the Tough Decisions

Next, it's time to decide which requests are approved and which are denied. As you approve or deny requests, let operations know so they don't assume all their requests are being done. At this time, also be sure to engage directors, regionals and vice presidents to get their opinions of what work needs to be done.

Finance usually sets a capital budget number that you can reference. It is important to leave part of the budget open for unexpected capital expenditures.

I found it helpful to establish a capital plan that included an amount for unplanned work—which always happens. Then, I had a backup set of projects that could be added to the plan late in the year if the unplanned work was less than I had budgeted.

Once your final plan is set, inform operations of what is going for approval. It is helpful if you also know the approximate quarter or time frame a project may be scheduled.

It is a pretty good bet the first pass of the plan will not be a clean approval. It may require lots of back-up documentation to support the requests or changes from the executive team on what they perceive to be most important. You also may have to carry over projects from the current year that don't get done, so make sure you capture them for the upcoming capital plan you are putting together.

Staying Vigilant

Once the plan gets approved, then you own the responsibility to get the work completed on time and on budget, allowing for the unplanned, and execute the plan as approved. It is critical to let management and operations know of any changes to the plan as the year unfolds. If unplanned work starts to turn up higher than projected, know what projects will have to slide ahead of time to account for this.

The key is to understand that a capital plan is exactly that: a plan on how to spend company resources in the best manner possible. It will shift up and down depending on business climate, and you must move with it during the course of the fiscal year.

Seek input, evaluate and then make a determination on what should be done. Then execute your plan and own the process. Good luck!

Danny Koontz has more than 38 years of facilities experience— 36 of them with Ruby Tuesday as Director of Facilities Management. He has been a member of RFMA since its inception, serving on the Board of Directors, as the 2011 Board Chair and now as a member of Advisory Council.