OPERATIONS AND CONTINUOUS IMPROVEMENT

Developing a Capital Program for Maintaining Assets

THE NEED

Traditionally companies have struggled in their attempts to determine the appropriate level of capital needed to invest in a site in order to ensure that it operates reliably and in a fully compliant fashion. In this case, the client wanted to develop a clear understanding of what the optimum investment level is for non-strategic capital, where it should be invested, and the implications of budget reductions in terms of risk to the business. In many cases, these budgets are cut without enough knowledge of the subsequent business risks.

THE APPROACH

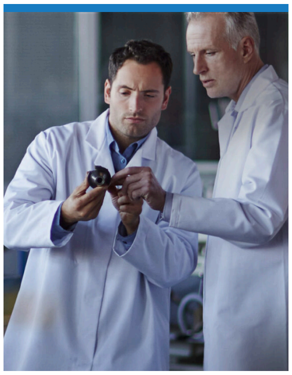
Capital spend (Capex) can be broadly categorized into strategic capital – for new programs or growth products that drive the business or non-strategic capital – sustaining or maintenance capital that is required to maintain current operations and deliver on existing or mature products. The approach included:

- Evaluating the business risk associated with each equipment system and determine the need for asset replacement.
- Categorizing each asset that required replacement within a five-year period and including it in a five-year rolling budget.
- Prioritizing equipment with the highest risk levels in years one and two and those with a lower risk level in years three to five.
- Generating a heat map for each network to demonstrate the current weaknesses in the network and the five-year plan to address these weaknesses.

This initiative was piloted on the supply chain for the four 'business critical' products (each product represented > 10% of company revenue and profit) before rolling it out across the portfolio.

THE SOLUTION

During the process the client experienced much-improved communication between the capital management group and the business leaders. Measures were developed where investment levels were minimized for products that were of low value to the company and/or those products where the company had surplus capacity in the network. Moving forward, during budget reviews, the company could now assess the risk associated with reducing or deferring capital spend on non-strategic capital investments.



THE RESULTS

- *A business based approach was enacted for determining capital decisions*
- *Investment levels were established based on valuations*
- *Risk assessments are now easier to measure against capital decisions*

PRIMECORE