

# Tame the capital monster

Companies must improve the way they manage capital to boost competitiveness and support emerging growth



**GROWTH.** It's what strong, viable organizations seek. The market demands it, employees are incentivized to deliver it, and shareholders expect nothing less. Whatever its form—whether it be the latest technology, a new manufacturing facility, or offices that support corporate expansion—capital investment is a crucial enabler of growth. While companies believe they are driving improved profitability and productivity through their capital budget, the opposite may be true. Many of today's sophisticated companies are unintentionally inhibiting growth because they do not effectively develop, prioritize, manage and execute their capital plan—creating the 'capital monster'.

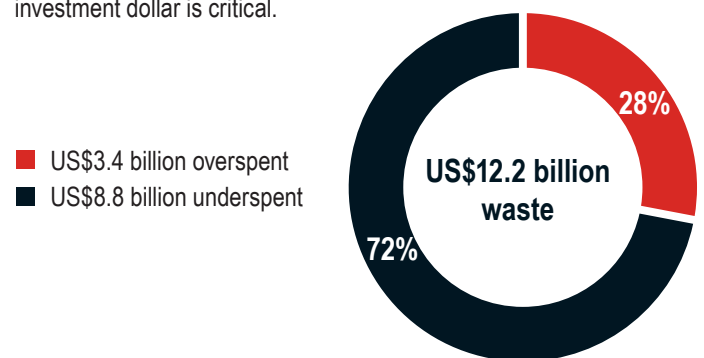
Without a holistic and structured approach to capital planning, organizations cannot evaluate allocation decisions objectively to determine those that will generate the most benefit for the organization and potentially waste scarce funds. Research conducted by JLL on the accuracy of capital plan execution versus the target in large corporates worldwide has revealed that companies frequently fall short in establishing and adhering to their capital plan. **On average, Forbes 1000 companies miss their capital plan targets for office real estate alone by US\$12.2 billion annually.**

(Source: JLL research)

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Out of this total, 28 percent is spent over the allocated budget, which clearly causes financial stresses throughout an organization, raises reputational risks, and damages shareholder trust. While we might applaud the US\$8.8 billion (72 percent) in underspent funds, this scenario might actually signal an even worse, yet less noticeable, problem lurking beneath the surface. An underspend means that in that year, money was held back from projects that could have generated a higher return on investment. What does that mean for a typical company? The average company misses plan by 12 percent,

which means that real dollars are swallowed up by the capital monster, rather than invested in growth which can make a substantial difference in an increasingly competitive environment where every investment dollar is critical.



## Where do capital plans go wrong?

While companies squeeze cost out of other parts of their real estate operations (e.g., placing downward pressure on rents), they often miss the target on capital planning. Why can't they 'tame the capital monster'? There are a few primary reasons companies struggle to develop a sound capital plan and then execute on it:

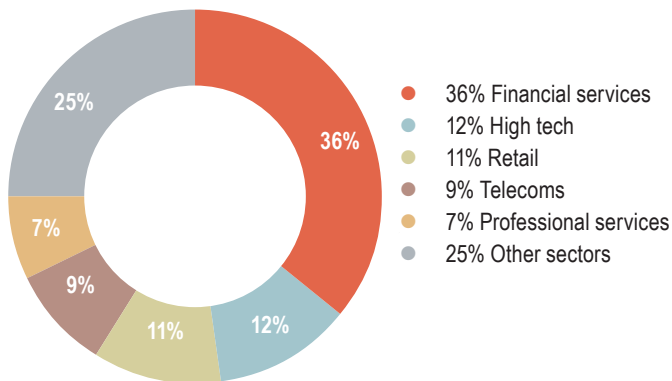
### 1. Starting with unreliable or insufficient inputs

Developing a plan based on poor data gets everyone started off on the wrong foot. Inaccurate, outdated or irrelevant facts about projects prevent proper forecasting and provide an insufficient basis for solid decision making. This situation is often due to a lack of alignment between the plan builders and the broader business; as a result, the capital plan does not reflect the company's strategic priorities. If the plan is too narrowly focused (on a facility rather than a portfolio level), it will miss ties to a broader real estate strategy; for example, the plan may budget for costly repairs or upgrades to a building slated to be sold during depreciation periods. Lastly, and possibly most critically, the projects in the plan are prioritized based on politics or personal relationships, rather than from an objective viewpoint grounded in business strategy or need.

### 2. Lack of transparency and flexibility

Limited visibility to progress compared to the capital plan is a real problem. The inability to monitor the plan in real time makes it difficult for teams and stakeholders to ensure that strategic plans are still aligned and that timelines are met. Often, this results from the use of different tools or technologies across relevant internal business units. Like any good plan, the way capital is managed must remain flexible

## Slicing the US\$12.2 billion by sector



and fluid to adapt as the business strategy or operating environment evolves. Typically, though, most companies build inflexible capital plans. For that reason, after a critical business decision has been made that impacts the plan (e.g. cancellation of a project), reallocation of resources to viable, ongoing projects is not an available option, and money continues to be channeled in the wrong direction.

### 3. Flaws in capital works execution

Even once a plan is set and agreed, gaps in its delivery and governance can steer it off course. For example, the team that develops the plan often doesn't own the resources to deliver. Such an organizational misalignment makes it tough to make adjustments or decisions, particularly if roles and accountability are ill defined. A capital budget could quickly get out of hand if managed in a reactive rather than proactive or strategic way. Often, delivery teams must deal with the loudest stakeholders and solve urgent issues, instead of managing the plan holistically with the enterprise goal of growth in mind. As a result, deferred maintenance may squeeze out growth-oriented capital spending, even though the maintenance may not be necessary, but is included in the plan owing to poor or outdated information.

Many companies are simply unaware of the inefficiencies in their capital planning process, or don't know where to start addressing them. See the questions on the right to assess your own capital monster.

## How to tame your capital monster

JLL found that the world's best companies manage their capital spend to within +/- 2 percent to plan. These companies have three things in common that have helped them to achieve this level of precision—allowing them to allocate the right capital to the right projects at the right time.

### 1. A holistic, objective and consistent process

Companies that manage capital planning and project execution as a single, continuous process are best able to stay on plan. A capital plan should remain dynamic and fluid throughout the year and take a longer term view, not bound by the current calendar or financial year. A carefully controlled and purposeful process of building the capital plan ensures alignment to the broader business strategy and provides an audit trail for tracking adherence. In addition, working with vendors that are knowledgeable about capital program management helps to

guarantee that companies have the expertise from the start or to ramp up internal capabilities quickly.

### 2. Centralized oversight

Successful companies define and empower a single point of contact, a centralized group or a program management office (PMO) to drive governance, communication and a transparent process for executives and delivery teams. But it doesn't stop there: having the right expertise on the oversight team is the single most important factor to building an efficient, effective and actionable capital plan. The team or unit providing oversight should have deep understanding of projects, real estate, finance, corporate strategy, and analytics, as well as the ability to coordinate disparate teams and information. Keep in mind that this is not a one-size-fits-all approach: you need to develop a role or team customized to your business' needs, culture and demands.

### 3. Technology (Monsters fear it!)

With today's advancements in data management and technology platforms, there is no excuse not to take advantage of new tools, using them as the foundation of a capital planning program and as a

## How disruptive is your capital monster?

- Do you overspend or underspend your annual capital plan by more than 2%?
- Is your capital plan managed by a series of spreadsheets?
- Does it take more than a few minutes to see how you are tracking against this year's capital plan?
- At year-end, does your team struggle with the "hockey stick" effect, a large spike in capital spend in the fourth quarter of the year?
- Are your capital works projects:
  - Spread across a wide geography?
  - Running concurrently?

If you answered "yes" to one or more of these questions, you're in good company with many of the Fortune 1000. Solving this challenge can become a competitive advantage for your business.

mechanism to monitor progress against plan. Leverage best-in-class data and analytical platforms, or a vendor that already has one, to integrate data across the capital project life cycle, which includes construction management, project management and capital planning. Doing this helps to ensure that teams are working with a single source of truth. Ideally, the common technology will systematically collect and disseminate relevant project data, which facilitates the analysis required to evaluate projects in an objective way, and contains historical information about past projects as a reference. This objectivity helps support projections for future capital needs. To that end, specifically look to invest in tools that can help improve project selection and prioritization. For example, use a selection methodology to remove company politics and inefficiencies from the prioritization process.

Depending on your organization's readiness as well as the scale and scope of your capital budget, there are a range of solutions to address and improve these three factors. Solutions to improve performance range from small changes with immediate impact, such as implementing an algorithm to prioritize capital spend effectively, to

advanced processes for companies that have mastered their capital monster, but seek to further maximize their capital budget's productivity. More advanced processes include data integration from other services, business lines and the market.

## Defeating the monster

Companies that have tamed or defeated the capital monster (with best-in-class capital planning) do these four things well:

1. Build an accurate and strategic capital plan from the start
2. Establish a function to manage the process holistically from planning to execution
3. Leverage a single technology platform and data set to ensure transparency and a single information source
4. Ensure that the right skills are in place to drive the plan

By implementing the above actions, your company can build a strategic, agile capital planning function that achieves the optimal outcome: **GROWTH**.

## Case study

**Industry:** Consumer goods      **Geography:** Worldwide, spanning 70 countries

### Approach

This global consumer goods manufacturer operates a single program management office responsible for projects, transactions and facility management, and works hand-in-hand with locally based teams.

### Key learnings

- Change management was a critical factor to the successful coordination of a complex capital plan as well as the consistency in communication across the organization.
- Tight integration between facility and projects teams created an automatic control mechanism to ensure alignment between capital planning and expense management. The facility team authorizes future expense projects related to project capital spend, so the condition of a facility is considered when prioritizing expenses.
- Leverage advanced data analytics and a strong technology platform and processes to improve automation, data accuracy and timeliness of information.

### Business result

Cost savings from several activities, including the consolidation and reduction in the total number of operating contracts by 40 percent and an aggressive budget management at the site level, which flows directly back into the business.

Want to learn more?

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