

What about Capex? Is your company investing the right money in the right projects?

Capital expenditures (Capex) is a big amount of cash that every year leaves your company. Depending on the sector we see 3-10% of the revenues invested in an average year. The good news is that a big portion of this money can be saved without harming your company and your employees nor putting your strategy in danger.

Two types of Capex are to scrutinize in your Operations: recurring Capex and occasional Capex. Recurring is the one to spend every year to maintain your current business and keep the value of your physical assets. Occasional Capex is needed when you plan to expand in a new region or introduce a new product, or just update technology for a substantial improvement in performance.

Recurring Capex projects are many and rather small but can be in total >50% of the yearly Capex. When the CFO receives hundreds or thousands of requests to be approved for the next reporting period, it is almost impossible to scrutinize all in a short period of time. A standard process and a simple prioritization mechanism are necessary. Having this will create a solid decision base to help select what can be postponed, canceled or should be executed.

Occasional Capex projects are typical few large projects where it is important to go deep and investigate the business case and the design to avoid the risk of “gold-plating” the unneeded solution. The solution is to go inside the design to challenge all the elements that don't add value to the project, in an iterative process from overall concept down to single equipment.

Many companies claim to be good in managing investments because their projects are delivered within budget and time. We strongly believe that it can be much better! What do you need to increase the return on investment? What can help you to free-up cash to fund other more profitable investments?

Capex management is a complex and interdisciplinary process. Inside are long term decisions that can determine your success or failure. Everyone involved in Capex project should have the owner's mentality of an entrepreneur.

There is a huge opportunity in all our business and in the society in making industrial projects better. Not only companies can improve EBIT by 1-3 percentage points, but earth's resources can be saved if new factories require less space, energy, water and materials.