

## CASE STUDY: CAPITAL PLAN MANAGEMENT IMPROVING FINANCIAL METRICS

### Situation

After a period of very rapid growth, a large cap pharma found itself with a number of challenges. High capital spending had driven rapid increase in depreciation, reducing funds available for other operating costs. Additionally, they were in the lowest quartile for a key financial metric - Return on Assets. This ratio is  $(\text{Net Income})/(\text{Total Assets})$  and is one measure of how effectively management converts assets into revenue.

### Action

I collaborated with senior research, engineering, and finance stakeholders to identify opportunities to fundamentally reduce capital requirements. Our focus: strategic sourcing, reduced construction costs, and improved long range forecasting.

### Result

The collaboration yielded a 75% reduction in the capital requirements. The reduction was accomplished through a portfolio of activities, including:

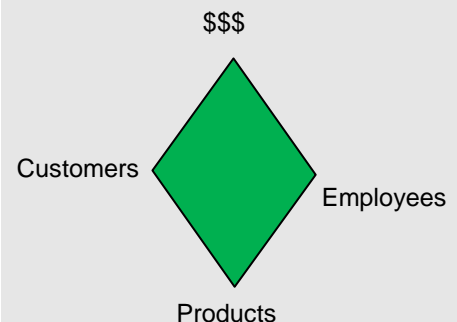
- Capital effectiveness initiatives with engineering, including greater design standardization, more risk-based utilities forecasting, and more transparency with project spending
- More aggressive capital management processes which validated project drivers, deliverables, and strategic alignment at the outset and subsequently facilitated timely intervention strategies
- Expanded use of sourcing for non-core activities following a pattern of innovation, experimentation, and commoditization which turned activities over to an external partner

### Lasting impact

In subsequent years, the Capital Plan is undergoing further reduction by focusing on enhanced management of smaller components, such as scientific equipment and small renovation projects. Education drives behavioral change and also should drive sustainability.

### Keys to success:

- Full commitment of senior stakeholder leadership and “burning platform” challenge
- Common goal and high degree of trust amongst all participants
- No “protected categories”, rather creative solutions which considered all components of the Capital Plan
- Shared ownership with clear leadership
- Focus on optimal solution rather than cost cutting. This theme is best portrayed by a strategy diamond with the following points: money, employees, products, and customers



### What people are saying....

- “Ed provided support to my research area, encompassing ~ 200 scientists over many years. He managed to blend business acumen with a much more rare appreciation for the challenges of conducting basic research in a large organizational setting. I could always be confident that his budgetary guidance and other strategic recommendations would balance the need for fiscal responsibility with appropriate support to ensure productive and effective scientific research.”\*
- Ed’s greatest strength is “to work inside what ever group/team with which he is involved to achieve superior goals, regardless of his management position within the group/team.”
- “Ed’s experience and expertise provide him with the perspective to not only implement; but also to define the absolute best practices with respect to Capital Planning and Management.”\*

\* Comments offered by colleagues and managers in an anonymous online survey.