PRIMECORE

Cell & Gene Therapy, Biologics & Pharmaceutical Specialists
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Case Study: Developing a Capital Program for Maintaining Assets

The Ask:

Traditionally companies have struggled in their attempts to determine the appropriate level of capital needed to be invested in a site in order to ensure that it operates reliably and in a fully compliant fashion. 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 1) Strategic capital, which is for new programs or growth products that drive the business or 2) Non-strategic capital (sustaining or maintenance capital) that is required to maintain current operations and deliver on existing or mature products.

Primecore’s approach to this assignment included:

- Evaluating the business risk associated with each equipment system and determine the need for asset replacement. This need was based on the general condition of the equipment, the criticality of the equipment to supply (e.g. backup systems in place) and the available capacity elsewhere in the network.
- Categorizing each asset which 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. For investments that were greater than $1M, a strategic review was initiated to verify the proposed solution provided the optimum business benefit.

Outcomes:

The client experienced much-improved communication between the capital management group and the business leaders as the capital management group could now take a much more business-based outlook when making capital decisions. Investment levels were minimized for products which were of low value to the company and/or those products where the company had surplus capacity in the network. Conversely, measures were taken to de-risk situations where there were critical weaknesses in their supply network.
During budget reviews, the company could now assess the risk associated with associated with reducing or deferring capital spend on non-strategic capital investments.

“During a regulatory inspection, the inspector cited our program as “Best in Class” in how to manage critical assets in an aged facility.”

-Head of Global Capital Management