Making A Buck Go Further During Your Next Relocation

By Alan Whitson, RPA

You've identified a solution to the increasing bite that churn is taking out of your budgets. The payback is 15 months, and the return on investment passes your company's hurdle rate. But, the finance department says there's not enough money in the capital budget. And they want you to cut your existing budget 10 percent.

Every facilities manager has been here at least once. Yet, management expects you to find solutions within the context of a decreasing capital budget.

Modular carpet, spline walls, raised floors, movable partitions, and zone cabling systems all have the capacity to reduce the cost of churn. Each of these solutions carries a cost premium. Yet, the life-cycle savings and return on investment of the cost premium often exceeds the return companies demand from their investments. From a facilities management standpoint, they are world-class solutions to the problem of churn.

Today, the key to controlling the costs of churn is not facilities-based — it's finance-based. Companies are becoming more aggressive about reducing the capital tied up in fixed assets. Financial concepts, such as Economic Value Added (EVA) and Zero Working Capital, are working their way through corporate America. The growth in sale-lease backs and the shift toward leasing over real estate ownership by corporate America are solid examples of this trend. The battle cry is do more with less capital!

Unfortunately, many facilities managers and financial departments use first cost as the sole criterion for evaluating a facilities solution, thereby trapping their company in a costly spiral of churn-related expenses.

Astute facilities professionals are now using more sophisticated financial metrics such as discounted cash flow of life-cycle cost and Financial Management Rate of Return (FMRR) to assess their facilities solutions. For example, standard drywall is always cheaper on the basis of first cost than movable partitions. Yet, with churn rates as low as 10 percent, movable partitions become a better investment value on a life-cycle cost basis.

This still leaves the problem of not enough money in a capital budget, or the desire of management to reduce or eliminate as much capital investment into fixed facility assets as possible. The solution comes in part from the nature of these products. They aren't fixed assets, but tangible personal property — an arcane term for the fact they can be moved and reused much like furniture.

Tangible personal property offers two major benefits: first, a shorter term for depreciation, usually seven years vs. 35 years for real estate; second, such property can be leased.

Leasing such items as carpet, raised floors, and zone cabling systems can take a major capital investment and convert it into an annual operating expense, thus freeing capital to be used in other places within the company. It also allows a facilities manager to use the most cost-effective solution for controlling churn costs, rather than a solution based solely on first costs.

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