

ALIGNING BUSINESS PLANS WITH FACILITIES STRATEGIES: TOOLS, TECHNIQUES AND CASE STUDIES

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SUMMARY

Two very different companies, Rite Aid Corporation and Keystone Helicopter, needed to quickly accommodate rapid growth as the result of recent business acquisitions. FP+A, Inc. utilized their (FSP)² model for facilities strategic planning to address this challenge. This model evaluates six (6) critical factors in order to align a company's facilities with their key business strategies. As a result of this thorough and systematic process each company acquired, constructed, and/or vacated buildings. The case studies of how this model was employed are instructive to facilities managers who anticipate business growth as economic conditions improve.

BUSINESS PLANS TRUMP FACILITIES PLANS

You are eating breakfast one morning before heading to work. As is your habit, you look over the local morning paper between spoonfuls of high fiber cereal. You are hoping that the hard news and the editorials are not all that interesting this morning so you can focus on the latest prognostications on the upcoming NFL playoff games. Then you catch the well known shield of Rite Aid on the financial pages, and discover that your employer has just purchased two other drug store chains. That's about the time your blackberry vibrates with a message of a short notice management meeting at the Harrisburg corporate headquarters at 8:00 AM. Your plans that day to meet with carpet vendors about a replacement and restock program to achieve a 30 month payback are about to be rescheduled for 8 months.

In another part of the state, a different date, a different newspaper but the same high fiber cereal breakfast, another facility manager is learning that one of his company's biggest customers, Sikorsky Helicopters, has just acquired his company. Seems that commercial helicopters are now hotter than ever. Between needing to shuttle oil workers between sea platforms and wells or executives who don't want the security hassles of using a fixed wing airport, the demand for this product is now as robust as its military counterpart. Sikorsky is now planning to merge its own commercial division with that of its new acquisition in Coatesville Pennsylvania. And Keystone Helicopter has suddenly lost interest in the state-of-the-art 40,000 square foot (3,716 m²) product delivery addition for which this facility manager was scheduled to receive its certificate of occupancy later that morning. And a different smart phone starts vibrating to deliver a meeting invitation.

While the months of due diligence involved on both companies mergers and acquisitions did not make the news entirely unexpected, the confidentiality and uncertainty about each deal did not allow for the type of contingency planning each facility manager would typically have initiated. A sudden change in the strategic business plan quickly trashed the strategic facility plan.

Whether it is a formal document hammered out each year at a three day offsite or seemingly the day-to-day whims of the CEO, every corporate entity has a business plan to guide its operations. The short term plan we typically describe as “tactical” while the long term plan is described as “strategic.” In times of economic uncertainty, tactical may describe the business plan for next month while strategic may not look farther into the future than six months from now.

We also use the term “plan” somewhat metaphorically. We might describe the components of the tactical plan in great detail. When looking at the strategic business plan, we concede that it is a reasonable response to conditions we anticipate in the future, knowing full well that those future conditions will change, making our plan obsolete beyond whatever flexibility we were able to build into it. The strategic business plan may look and read like a plan document, but it is more a description of a process on how to expeditiously deal with future conditions as they change.

Plan or process, the business plan becomes the basis to which all other corporate planning must align. If our department is not serving the needs of the business plan, then perhaps we are working under a different agenda. This quest for alignment within an organization is identified as one of the key factors for corporate success. This alignment is the basis of the marketing plan, the human resources plan, the financial plan, and of course, the facilities plan.

When the facilities plan is developed to align with the business plan, facilities actions are prioritized (or re-prioritized) based on how they affect the overall business plan, and not necessarily on how they affect facilities issues:

- The focus on introducing a new carpet management program at Rite Aid is set aside for creating and expediting a plan to accommodate 400 new hires in 6 months effecting almost all corporate departments.
- Commissioning the new showcase facility for helicopter delivery is now a lower priority than accommodating two new green assembly lines from Connecticut, plus all their associated engineers, quality staff, program managers and administrative support. And the new showcase facility is now way undersized for the volume projected by the new sales and production plans.

At the forefront of each plan are its objectives. When each of our facility managers called FP+A a short time after their unscheduled morning meeting, the business and facility objectives were in close alignment:

	Business Objective	Facility Objective
Rite Aid	Quickly integrate the corporate staffs of the three drug store chains.	Increase the footprint of most corporate departments within six months within a ten mile (16 km) radius from corporate headquarters, accommodating 400 new staff at various levels.
Keystone Helicopter	Move the parent company’s commercial division from Connecticut to Pennsylvania without disrupting production schedules.	Deliver the facilities needed to accommodate production lines and staff in accordance with a transition schedule of parallel production capabilities.

THE ALIGNMENT PROCESS EMPLOYING (FSP)²:

The process of creating a facilities strategic plan typically involves four (4) steps:

- Step One: Set Baseline: Collect data on existing space use.
- Step Two: Assess Needs: Define facilities implications of corporate strategy.
- Step Three: Generate Options: Develop alternative facilities strategies, schedules and budgets.

Step Four: Execute Plan: Recommend, gain approval and implement the preferred facilities strategic plan.

This process is often focused entirely on square footage (m²) requirements. The assumption is that the plan must simply deliver the correct amount of square footage (m²) (more or less than the current baseline) as needed to meet the corporate strategy. That floor space is actually an element of production is often missed by this process. Elements of production are typically evaluated in terms of:

- Marginal cost.
- Risk management.
- Turnaround time.
- Retooling flexibility.

Hardly the terms found in many facility strategic plans.

For both Rite Aid and Keystone Helicopter, the speed needed to accommodate the growth and the scale of the expansion required a more comprehensive approach than might be found through the traditional process. The recommended facilities plan would need to be presented in terms that the COO and CFO would understand and embrace.

In developing facilities strategic plans for each of these clients, FP+A employed its (FSP)² Process. This organized each of the planning steps into six (6) critical factors:

1. Financial Hurdles: The yardsticks are **cost of capital** and **affordability**. Cost of capital will measure the return on investment (**ROI**) for any facility action being considered. This is critical for the lease-versus-buy analysis. Affordability is often measured in **costs per square foot (m²)** based on corporate or industry **benchmarks**: Facilities Costs/SF, Sales/SF, Personnel/SF, Output/SF.
2. Sales Sensitivity: Ultimately, it will be the sales that will pay for the expansion, or the sales contraction that will necessitate reducing the size of the facilities assets. Changes in sales will require more or less square footage (m²) to accommodate changes in **needs for personnel and/or equipment** (although not in a direct proportion). Sales in turn are governed by **economic factors**. The sensitivity analysis will indicate not only the most likely case for sales (and the impact on square foot (m²) needs), but the changes in needs given different economic scenarios.
3. Process Portability: The ability to affect change is a function of the ease of moving the company's existing processes in order **to renovate or to relocate**. Sometimes a move is less **disruptive** to operations than a renovation. Sometimes the cost to move the operations is far greater than the additional lease costs being imposed.
4. Facilities Control: Controlling facilities with **core function** or that are difficult to move is balanced with locating functions that are easily moved, expanded or consolidated in facilities that are not controlled. **Control** can be defined as ownership or a long term lease with buyout provisions.
5. Site Advantages: Facility location options are evaluated in terms of **visibility** as well as **access to offsite processes**, to personnel markets, to **utilities** (gas, power, water, sewer), to **vendors** and services and to highway and rail.
6. Personnel Assets: "A company's greatest assets leave the plant at the end of every day." Weighted values are given to **onsite amenities**, access to nearby **offsite amenities** (dining, shopping, services) and ease and length of commute,

as **competitive advantages**. These assets do appreciate!

Each of these factors are used in evaluating such facilities actions as building expansions, renovations, moves, consolidations, sale-leaseback, leasing and buyout.

CASE STUDY RESULTS

Rite Aid

Rite Aid's acquisitions were the result of a growth strategy to reach an economy of scale to compete with the other national chains. The facilities requirement was to quickly expand its footprint to absorb the key back office personnel from each of the acquired chains into each of Rite Aid's existing back office departments:

The key (FSP)² factors for this facilities strategic plan:

1. **Financial Hurdles:** Favored leased space with minimal improvements, preferably financed by the landlord or offset by several months of free rent. Converted strip shopping centers suited these requirements.
2. **Sales Sensitivity:** Minor impact on planning, mostly a function of continually reducing overhead (headcount) costs as a percentage of cost of goods sold as sales increased.
3. **Process Portability:** Favored use of demountable walls and workstations in order to quickly move to expand and then move to consolidate if a central facility was ever warranted.
4. **Facilities Control:** Having a real estate exit strategy was the key to reaping facilities benefits from the merger. New leases needed attractive early termination provisions; existing owned facilities were slated for near term disposition based on ease of sale or lease to others.
5. **Site Advantages:** The key advantage sought was ease of travel to the corporate headquarters for both integrated planning and integration training of new arrivals from the acquired drug stores.
6. **Personnel Assets:** Employee retention during the absorption phase was critical. This entailed both minimizing changes in commuting time for existing employees whose departments were moving and expanding, and offering a pleasant working environment with amenities onsite and nearby for those moving from within the area and from outside the area.

The plan was presented to and approved by management within three (3) months of the merger announcement. Absorption of incoming personnel was accomplished within five (5) months. The reward was the commission to redesign the corporate suite employing none of the six critical factors above.

Keystone Helicopter

The Keystone Helicopter merger offered twin hurdles:

- Expanding to absorb new product lines and subassemblies for existing product lines.
- Absorbing a new corporate culture that favored collocating support functions with individual production lines rather than centralizing support.

The expansion and integration needed to be accomplished within two (2) years. Building an addition to the existing Heliplex or new buildings in the nearby industrial parks were options that could not be accomplished in that time frame primarily due to regulatory approvals.

Recommendations based on the key (FSP)² factors for this facilities strategic plan:

1. **Financial Hurdles:** Cost of capital favored existing space for long term lease preferably with improvements financed by the landlord. An adjacent building shell being built on speculation would be ideal for accommodating a new product line and increased office needs.

2. **Sales Sensitivity:** Tenant improvements for production lines would be moderated to minimize work needed to restore the space if it needed to be subleased to another tenant or decommissioned to accommodate offices from dispositioned facilities. Sales growth was to be accommodated by adding second shifts.
3. **Process Portability:** Testing facilities remain in the original Heliplex. The disruption of adding mezzanines (plus the time to obtain approvals for associated increases in parking) nixed that option. Central functions such as finance, human resources and engineering were slated to be moved to nearby available office buildings on shorter term leases. These could be moved to decommissioned production spaces.
4. **Facilities Control:** All facilities to be leased; the term of each lease and the purchase options were used to control the buildings with the least process portability.
5. **Site Advantages:** Distance from final assembly to the testing and heliport delivery facilities at the Heliplex was key.
6. **Personnel Assets:** Luring Sikorsky employees from New Haven to Coatesville require that on-site cafeteria, exercise, medical, banking and retail facilities be offered that were comparable to what is standard in the unionized Connecticut area.

PRESENTING RESULTS TO THE C SUITE

Whether or not the Facilities function reports to the CFO, the expenses and assets represented by facilities inevitably attracts the interest and requires the approval of the CFO. Facilities' biggest customer is operations, but its biggest hurdle is Finance. In order to have the CFO on board with the facilities strategic plan, this plan must be couched in terms that are dear to the CFO:

- Return on Investment (ROI) and Payback Period.
- Capital and Operating Leases.
- Purchase Options and Sale-Leaseback Options.

Affordability is key, even if the facilities strategy is less than optimum for production. There are many facilities options that have a positive ROI; there are only a few that the company can also afford and that meet other hurdles such as return on assets, cost per square foot (m²) and overhead rates. Employing these six (6) critical factors to present the facilities options to the CFO should be done on an A3 (11x17" or 297x420 mm) piece of paper.

The presentation of the facilities plan can also connect with other key players in the C Suite

- CEO: Reinforce company culture.
- COO: Improve operational performance.
- CQO: Support work behaviors.
- CFO: Contribute to profits.

A second challenge is to align the facilities planning cycle with the business planning cycle. Business planning cycles are continually shrinking, sometimes as short as 90 days. Facilities solutions can require two years or more to implement. The recommendation is to offer tiered facilities solutions based on 90, 180, 360 and 720 days to execute. The plan to be able to offer a new product in 90 days should have a facility plan to accommodate that new product line just as fast. A product in R&D that might be ready for prime time in two years should have a facilities plan that securing or taking options on long lead items to shadow that development cycle. The facilities plan must be updated as often as and concurrently with the business plan.