



## **Modernizing Your Capital Management System: From Disjointed and Reactive to Connected, Informed and Strategic**

In today's fast-paced and resource-constrained environment, effective capital management for a large organization is a critical enabler for organizations striving to meet growth goals, achieve operational excellence and support high quality standards. The complexity, inefficiency, and waste inherent in most of today's capital management systems necessitate a transformative, strategic approach that leverages accurate data, streamlined processes, and strategic partnerships. This white paper explores the key elements of a best-in-class capital management system and provides actionable insights for organizations seeking to optimize their capital resources.

Traditional capital management systems evolved slowly over the years and still reflect cumbersome, manual and inefficient processes. There are far more requests for capital than there are funds available which results in assets being in service far longer than they should or missing opportunities on new innovative technology. Rather than being an anchor to growth and efficiency, it has never been more important for organizations to strategically overhaul capital management systems to be a strategic resource.

### **Why Capital Management Systems Fail:**

Ineffective capital management systems are often burdened by a combination of systemic issues:

- **Inaccurate and Unreliable Data:** The foundation of sound capital management is accurate and connected asset data. Basic information regarding make, model, original cost, age and location is often incomplete or missing. More advanced, yet important data elements such as service history and cost, uptime and utilization are often stored in disparate systems or only available on an ad hoc basis. Decision makers buying a new

asset are often not aware that the same asset is available and under-utilized elsewhere in the organization. Traditional, one-time physical asset inventories are costly and disruptive events that often yield errors and rapidly become obsolete. Most capital programs fall far short of the goal of 95%+ accuracy even with basic data.

- **Inefficient/Disjointed Processes:** Manual, complex, and inconsistent processes for submitting and cataloging capital requests often feel like a black hole for requesters. Subjective and inconsistent return on investment (ROI) calculations further complicate decision-making. Centralized decision-making structures can obscure the true decision-makers, and time-consuming, wasteful RFP processes drain valuable resources. Slow and inconsistent processes for prioritizing and approving capital requests lead to delays and inefficiencies. Subjective ROI calculations and the absence of dedicated capital portfolios for specific needs further exacerbate these issues. It is critical to know who the decision maker is, yet many times no one can address this. Manual and disconnected asset acquisition processes often result in the selection of inappropriate service levels, leading to unnecessary expenditures or costly downtime. There are not many people who enjoy the Request-for-Proposal (RFP) process. Traditional RFP's take too much time, are very costly and attempt to minimize everything to commodity status and low price.
- **Lack of Planning and Accountability:** Capital budgeting and forecasting are often conducted by Finance in the aggregate, across all capital types as required for public and board disclosures. This holistic approach does not transcend to specific sites or service lines and doesn't allow for business leader accountability back to the original forecasts. Accurate data is crucial for forecasting future spending and, in addition to being valuable to the organization, is highly valued by financial markets.
- **Underutilized Strategic Partnerships:** Many organizations fail to leverage the potential of strategic partnerships with capital equipment suppliers and IT solutions. A lack of trust, coupled with the absence of senior-level relationships, prevents access to valuable resources such as data analytics, utilization optimization, efficiency, and revenue optimization. Aligned goals and incentives can lead to significant synergies and competitive advantages.

## **Six Elements of a Best-in-Class Capital Management System:**

To address these legacy challenges, a best-in-class capital management system should incorporate the following six key elements:

### **1. Accurate, Reliable Visibility of Asset Data:**

- Digital asset management using pictures of assets matching industry databases
- Comprehensive asset information, including brand, model, serial number, age, condition (graded or indexed), location, utilization, maintenance history/costs, and forecasted replacement date.
- Connected systems or modules of capital management (purchasing, inventory, maintenance)
- Real-time data that is easily maintained.
- Revenue tied to assets to assess risk and opportunity

### **2. Strong Process to Onboard Project Asks:**

- Digital onboarding of all projects
- Comprehensive resource requirements
- Consistent ROI formula, with clear directions for hard and soft costs/savings.
- Total cost of ownership analysis
- Monte Carlo risk simulations for large projects
- Categorization of requests (replacement, innovation, facilities)
- Evaluation of ownership, lease, or subscription options
- Interactive project dashboards readily accessible
- Post-audits on a representative sample of projects

### **3. Effective Capital Budgeting and Forecasting:**

- Alignment of forecasts and budgets with project requests
- Segmentation of capital portfolios (site, department, service line, replacement, innovation, facilities)
- Clear and transparent view of available capital in segments
- Implementation of rolling and dynamic budgets, replacing static annual budgets
- Consideration of capital impact on financial instruments (stock price, bond rating, balance sheet ratios)

### **4. Robust Process for Prioritizing and Approving Projects:**

- Clearly defined decision-making thresholds
- Differentiated authority based on risk (amount, life cycle replacement vs. new) including “fast path” for high ROI, managed risk or safety projects

- Prioritization of asset redeployment for underutilized assets
- Verification of supporting resource availability (IT, Facilities, Rev Cycle) before decisions are made

#### **5. Leverage Strategic Partnerships:**

- Supplier risk-sharing based on performance and outcomes
- Consolidation of suppliers into strategic platforms
- Cross-service line supplier utilization
- Integration of supplier ecosystems
- Strong governance with C-suite engagement
- Pre-arranged pricing and terms to eliminate RFPs

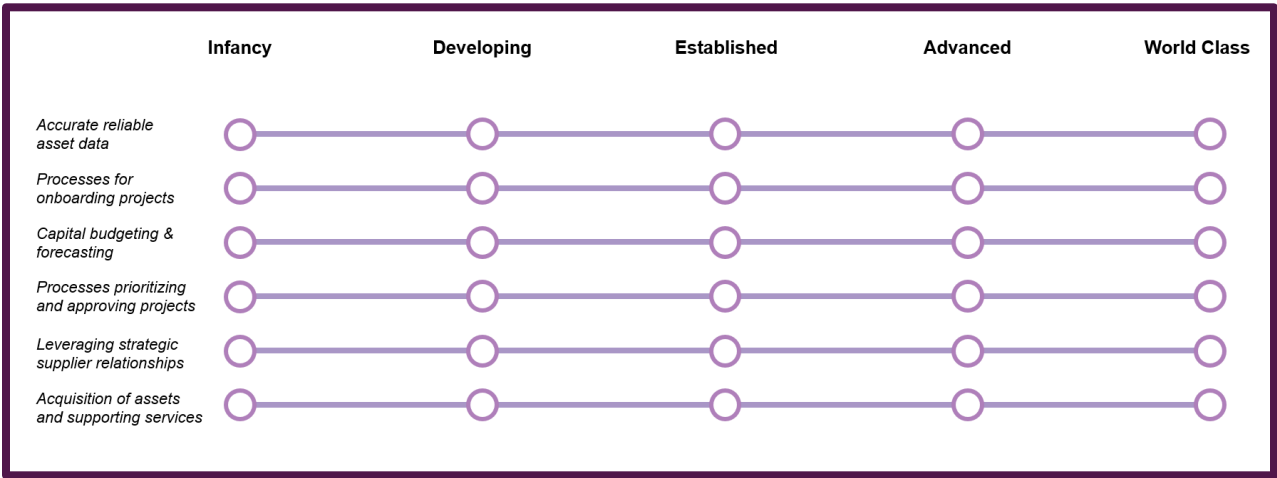
#### **6. Acquisition of Assets and Supporting Services:**

- Robust digital RFP programs for optimal pricing
- Differentiated service levels based on operational criticality
- Integration of maintenance records with asset records
- Utilization of multi-vendor service providers

#### **Where to start:**

Organizations should start with an honest and objective assessment using the Capital Management Maturity Model (see below). Key stakeholders assess where they currently are on each element (place an X). Then senior leadership should decide where the organization wants their capital management program to be (place a Y) and by when. The X-to-Y result indicates the gap that can be turned into action steps that can be assigned to accountable leaders with KPI's and milestones. The "by when" alignment with senior leadership is critical, as the urgency of effort is very different between getting to mostly World Class in 3 years vs. getting there in 10 years. It may require some iteration where senior leadership provides interim guidance while a small team builds the action and resource plans. Those plans would be reviewed again with senior leadership where final alignment and approvals will be provided. While it may take several years to modernize your capital system, organizations should start with manageable, high-impact improvements and recognize that steady progress is better than procrastinating any longer.

# Capital Management Maturity Model *(simple version)*



(to get the more detailed definitions for each stage for each element of this maturity model, contact John Shull)

## Conclusion:

Many organizations have some elements of these best practices already, but their capital management program is only as strong as its weakest links. A business could have very clear decision making rules and make decisions fast, but without a good understanding of what assets it has, and which ones have the highest priority, it can make bad decisions with precious capital. Some of the key principles embedded throughout these elements are digitizing manual processes, creating interconnectedness across the entire program and developing strong, integrated, aligned partnerships that drive critical synergies and scale. There are supplier partners with advanced IT solutions to enable some of these elements. Both generative and agentic artificial intelligence can help with identifying assets, building consistent project requests, ordering assets, prioritizing projects, executing orders and managing supporting services.

By embracing the above elements, organizations can modernize their capital management systems from sources of waste and inefficiency into strategic assets that drive growth, cost reduction and quality improvement. The journey towards optimized capital management is not just an operational necessity but can create what your peers will call an “unfair competitive advantage” if done right.

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*If you would like assistance in assessing your capital program with a deeper dive into the maturity model or would like to discuss this or other topics in more detail, please contact John Shull.*

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