RESEARCH REPORT 2022

# HOW COMPANIES ARE MANAGING CAPEX AND THEIR GREATEST CHALLENGES.

**IQ**ˣ
Business Solutions

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Organizations are revamping their processes in the quest to become more agile and efficient in these challenging pandemic conditions. With an economic rebound in sight, the spotlight is now on digitalization of the CAPEX process.

Capital Expenditure (CAPEX) funds are used to purchase, maintain, and upgrade assets of which the benefits accrue over their useful life. The assets can be equipment, infrastructure, software, and intangible ones like patents and licenses. Some are deemed mandatory to maintain compliance, some are imperative in ensuring continuous running of operations, and others are discretionary to foster company's growth. Essentially, CAPEX are investments put in place by companies to future-proof their business.

CAPEX processes typically start by collating a wish list of potential initiatives, selecting, and prioritizing suitable ones, and budgeting cash and human resources for their successful delivery. The CAPEX process then extends to procurement and project execution activities. Ongoing monitoring and reforecasting activities ensure that initiatives proceed to plan. Following project completion and asset capitalization, post-investment reviews are conducted to ensure that business-cases promises are achieved.

Given the importance of CAPEX management, IQX Business Solutions completed primary research with a group of companies running SAP. The research uncovered how CAPEX is being managed today and the ensuing challenges. We will also delve into best practices adopted by reputable companies and what CAPEX digitalization means to them.
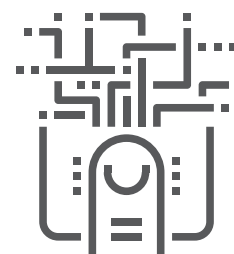
**THE SPOTLIGHT IS NOW ON DIGITALIZATION OF THE CAPEX PROCESS**

## CURRENT WAYS COMPANIES ARE
# Managing CAPEX requests

*These are the 3 most common methods of managing CAPEX requests as reported by the surveyed participants.*

### 1. EXCEL AND EMAIL

Excel and Email make up the biggest percentage, with 43% of organizations relying on these familiar tools. Excel spreadsheets provide the business case and project costing. Email is the most prevalent way of communicating CAPEX requests and seeking approvals.

Excel documents tend to become a source of unreliable and outdated information. Participants might reference old versions, leading to misinformation and misunderstanding. Templates and formulae invariably get corrupted, invalidating the reliability and comparability of reported results. The history of and responsibility for edits is largely indeterminate.

Email back-and-forth generates excessive noise and indecision especially when the recipients list gets bigger. The original message gets diluted and there is the possibility of not including key people in the email threads of which their expert opinions are needed. Conversely, and to mitigate this risk, distribution lists tend to become too large and unwieldy, with too many opinions and not enough action. The responsibility for complying with the organization's delegation of authority and approval policies relies on the participants familiarity with the process, or more commonly, on a lot of administrative time to govern and support the process.
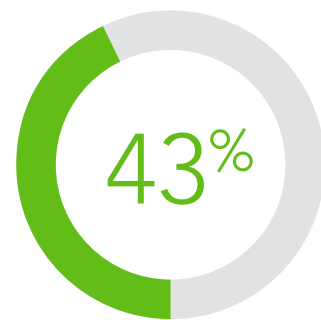
## 43%

*Excel and Email make up the biggest percentage, with 43% of organizations relying on these familiar tools.*

## 2. SAP APPROPRIATION REQUESTS AND WORKFLOW

19% of organizations surveyed use SAP's Investment Management solution suite including appropriation requests and integrated financial modules. Appropriation requests initiate funding requests and support the call-off against budgets; work breakdown structures (WBS) and internal orders track the project's actual expenditure which is committed; and the Fixed Asset module deals with the asset accounting.

However, participants commented that "the more collaborative processes were not fully supported in SAP". To be able to capture wish list items, refine annual budgeting details, and justify expenditure requests, the structure of SAP Appropriation Requests is rigid, access and usability is poor, and requires SAP licensing for all participants. So even where this functionality is deployed technically, interaction with the system is often managed by administrators, with participants interacting with more user-friendly forms and templates.

Bolting-on third-party systems to provide a more user flexible and user-friendly interface to SAP has its own problems: participants are required to have multiple logins, potentially have inconsistent authorisations and manual entries into SAP are still required to record the updated budget and forecast values leading to delays, inaccuracies and administrative inefficiency.

# 19%

*of organizations surveyed use SAP's Investment Management solution suit*
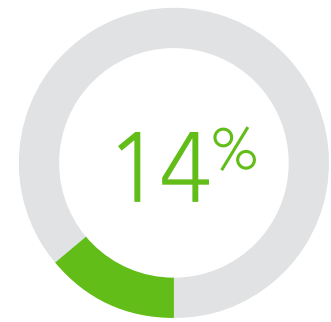
## 3. SHAREPOINT/LOTUS NOTES

14% of participants surveyed utilize customised Lotus Notes or SharePoint solutions to accommodate their CAPEX processes.

Participants noted that both Lotus Notes and SharePoint were able to satisfy expenditure request and workflow approval requirements. As stand-alone solutions they can be deployed quickly and tailored to an organizations' unique data collection and workflow requirements.

This lack of integration, however, causes substantial inefficiency. The availability of CAPEX budget cannot be validated on expenditure requests, and instead requires off-system correspondence with the CAPEX administrator. The creation of projects and allocation of budget needs to be manually executed in the back-end system. Supplementary budget requests provide no visibility of current project budget status and commitments. Reconciliation of reports between systems is inefficient due to separate investment initiative identifiers at every stage (and system!) of the process, and the absence of a single source of reliable data.

Lotus Notes and SharePoint approval forms are unsuitable from an executive perspective, and are rarely effectively mobilised.

So whilst these tools provide a more rigorous request template and approval mechanism, and improve on the unlimited and uncontrolled flexibility of Excel and Email, the lack of effective integration and analysis capabilities becomes the major driver for consideration of more integration solutions.

## 14%

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LOTUS NOTES AND SHAREPOINT APPROVAL FORMS ARE UNSUITABLE FROM AN EXECUTIVE PERSPECTIVE, AND ARE RARELY EFFECTIVELY MOBILISED.

CHALLENGES WITH

# Current CAPEX Processes

*The research results also highlighted some frequent challenges surrounding CAPEX processes.*

## 1. DIFFICULT TO MONITOR THE APPROVAL STATUS OF A CAPEX REQUEST

A very common frustration of participants (just over 45%) rated monitoring the status of CAPEX approvals as a key challenge.

A CAPEX request is usually initiated by the project manager responsible for the project execution. The request forms formalize the nature of the investment and requested budget. Typically, the responsible area, investment reason (eg replacement), asset class (eg IT equipment) and value will determine the required approvers which may include operating unit manager (eg Plant Manager), functional line managers (eg Finance, Procurement and IT) and executive sponsors (eg CFO). Without a formalised workflow system in place, requests practically disappear into a black hole. The initiators have no visibility of the request status, comments or approval stage. Similarly, approvers have no pipeline visibility until the request arrives in their inbox (and invariably just when they are too busy to review in detail). As manual approvals are normally sequential, any queries and adjustments back to the initiator typically restart the entire approval process. Consequently, the time to approve requests end-to-end can often take weeks.

**45%**

*A very common frustration of participants (just over 45%) rated monitoring the status of CAPEX approvals as a key challenge.*

As opposed to relying on administrators to check on the status of a request and chase for approvals, which is highly inefficient, an automated workflow management system will provide process transparency for all participants, accelerate the approval cycle, and ensure that necessary approvals are obtained in accordance with policy.
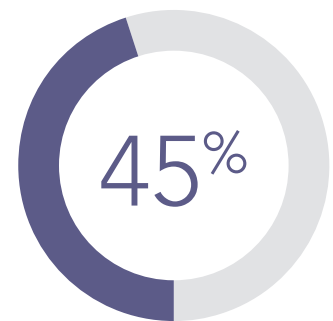
## 2. APPROVAL PROCESS TAKES TOO LONG

The second biggest pain point, as mentioned by 27% participants, is the time it takes to obtain all necessary approvals. In addition to the lack of a formalised workflow management system, this is caused by another very important reality: the difficult of making the right decisions. The onus is on executives to identify and prioritize the CAPEX requests that are aligned with the organization's strategic goals, and that provide the most benefits at lowest risk.

If the submitted requests are inconsistently prepared and evaluated, or lack sufficient supporting documentation to understand the project's importance and assess risks, executives resort to ad-hoc meetings with the stakeholders and experts involved to make a decision.

As executives are often travelling, reviews and approvals get delayed if the system isn't web-based and mobile-enabled, and doesn't provide all the required information.

However, by enabling consistent data collection and classification, with digital forms tailored to sponsors' needs, considerable review and approval time can be saved. This gives project managers the time to deliver projects successfully, as opposed to having to play catch-up from the beginning.

**27%**

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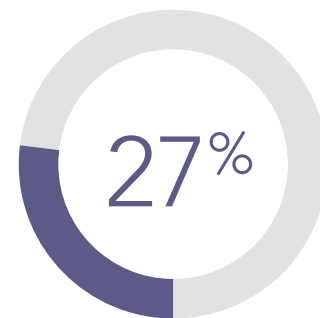
## 3. DIFFICULTY OBTAINING TIMELY AND RELIABLE REPORTS WITH MANUAL DATA RE-KEYING EFFORTS

From the research, 19% of participants regarded difficulty in extracting timely and reliable reports as a challenge, while another 9% mentioned inefficient re-keying of data between systems.

Administrators who must prepare CAPEX reports find it difficult and time-consuming to merge data from different systems. For example, they have to get the actuals from SAP whilst for budget values and approvals, they extract from another workflow-enabled app. Then, they have to manually re-enter the consolidated data back into SAP for reporting. By this time, some data might already have become outdated.

Hence, the reliability and accuracy of the reports become questionable. The worst thing that can happen is when the management are blind-sided by problematic projects, noticing them only when it's too late.

Alternatively, retaining a single-source of truth – SAP – from the capital planning and budget request process right through project execution, ensures that delayed and error prone replication of data is eliminated, and reliable and timely analyses can be produced to more effectively control the capital expenditure.

**9%**
**19%**

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# Behind CAPEX Digitalization

*Now that we've reviewed the research findings and discussed the prevailing issues around managing CAPEX requests, let's examine the 5 key value drivers leading companies are using to modernize and digitalize their CAPEX management.*

## 1. DELIGHTFUL USER EXPERIENCE

User Experience is a deciding factor. To ensure smooth end-to-end execution of CAPEX processes, the solution must provide a user experience that engages and delights all users alike — project managers, administrators, project sponsors, and approving executives. A digital web interface request form, such as the provided by SAP Fiori, is the best way that's familiar to everyone, without the hassle of having to download and install separate software. A web interface will enable people to always access the latest form template for consistency of evaluation.

The web app should be dynamic to automatically adapt to a unique business scenario and classification. For example, the supplementary details for an IT request would be different from an engineering request, hence should be reflected accordingly.

User access should be device-independent and support mobile interaction because participants, and especially executives, are increasingly not desk-bound. Approvals, especially for urgent items, need to be able to be granted via mobile devices.

Any supporting attachments should be centrally stored for ease of access. Any changes should be version-managed and date-stamped to ensure that everyone is reviewing the correct version. The documents should also be secured and accessible only by authorized participants.
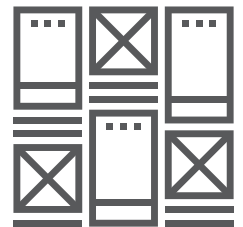
USER EXPERIENCE IS A DECIDING FACTOR

## 2. AUTOMATED WORKFLOW APPROVALS

Although it's necessary to perform due diligence before approving CAPEX funding, unnecessary delays could prove costly especially if the project is time-critical, meant to eliminate immediate risks or achieve quick wins. So, the CAPEX digitalization initiative should focus on accelerating project approvals.

The crucial part here is to have an automated workflow that incorporates an authorization matrix to ensure that requests are routed to the right approvers. The request needs to be transparent and visible to all stakeholders for monitoring purposes. This way, initiators can act pro-actively, following up with the current approver to expedite urgent items.

The workflow should have collaboration tools so it's easy for the executive to contact the project manager or other stakeholders if they require further clarifications about the project. And by being able to view all these requests within a task list, they can stay on top of things.

Along with access to version-managed supporting documents within the request form, they should be able to drill down to details as required. Another important feature is the capability to view prior comments from subject matter experts and other approvers. This helps in determining the priority and urgency of the project, further aiding decision-making.

This is a better alternative to emails where it's hard to identify urgent vs. non-urgent tasks, let alone keeping track of project information that are likely scattered in different email threads from different personnel.
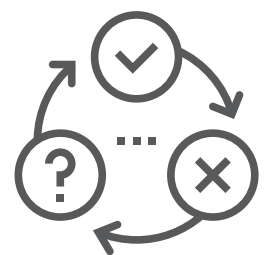
**UNNECESSARY DELAYS COULD PROVE COSTLY ESPECIALLY IF THE PROJECT IS TIME-CRITICAL**

## 3. INTEGRATION AND AUTOMATION

Manual efforts in data collection, collaboration, approval, and execution can cause process inefficiencies and delays.

With SAP as the underlying ERP, it's now even easier to digitalize CAPEX management. SAP provides all the underlying core functionality. IQX CAPEX for SAP Fiori provides the user-interface flexibility and workflow management tools to provide a complete solution incorporating interactive web forms, integrated budget tracking, supporting document management and faster mobile approvals.
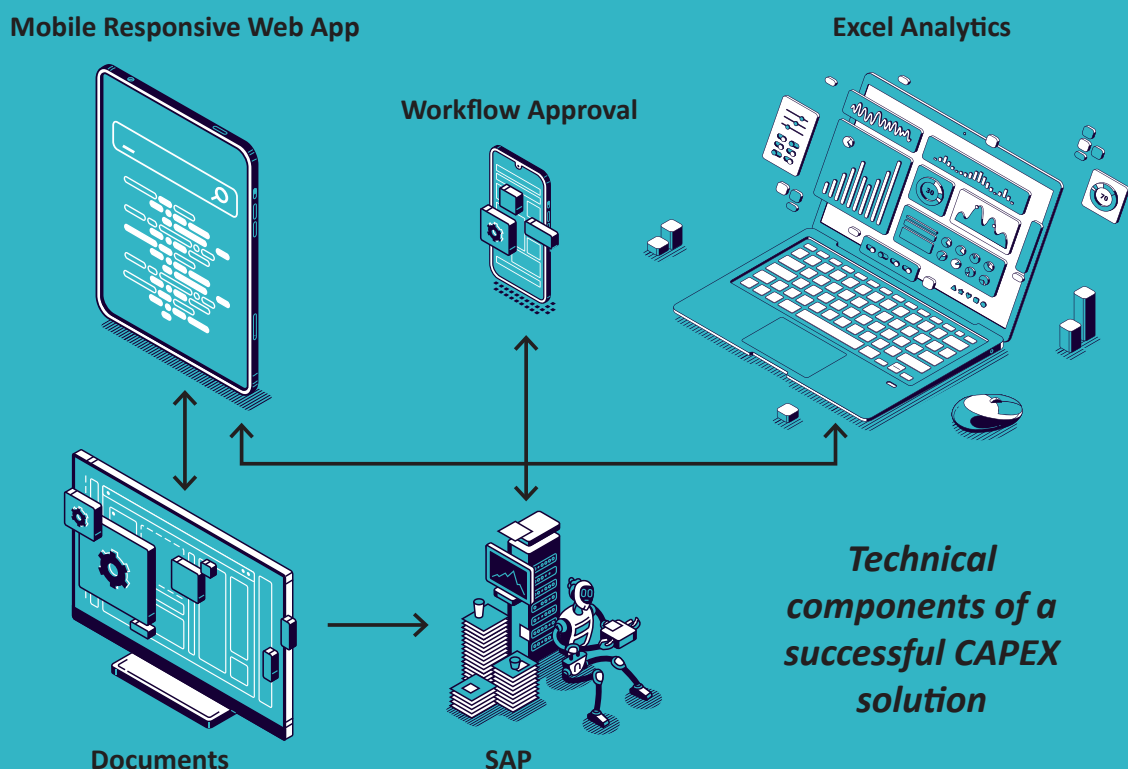
Excel will remain a tool of choice for accountants and project managers. Excel is used to work out budgets, business cases, and cashflow forecasts. With IQX CAPEX it's possible to synchronize key financial measures from Excel into the web-based CAPEX request form and vice versa. However, as opposed to stand-alone Excel workbooks, with SAP as the live underlying data source, everyone has access to the same single source of truth as soon as it is updated.

With IQX CAPEX, supporting documents are controlled through SAP's document management system to ensure that all documents are centralized, accessible, and secure. Apart from enabling easy review by process collaborators, it is especially useful during post-investment review where you need to retrieve the finalized documentation.

Upon approval, an Investment Measure (Project WBS or Internal Order) is generated in SAP with the assigned budget. The Investment Measure functions as a cost collector throughout the project duration together with budget control mechanisms.

With workflow and routing automation, it's clear what needs to be done at every stage and by whom. Traceability is built into the whole process through logs and audit trails, hence ensuring auditability and policy compliance.

*\*\*\*taken from the Capex Automation Best Practices pdf*



**Mobile Responsive Web App**

**Workflow Approval**

**Excel Analytics**

**Documents**

**SAP**

*Technical components of a successful CAPEX solution*

## 4. REDUCTION OF ADMIN EFFORTS

At a tactical level, CAPEX automation serves to ease administrative tasks.

Administrators can track the CAPEX status via workflow and do follow-ups where needed. The contextual and collaboration tools within the workflow are a better alternative compared to triggering emails which can often get overlooked.

With an integrated platform, administrators don't have to go into multiple systems and extract data to produce management reports. There's no need to re-enter data and numbers back into SAP or other management reporting systems for each project. This way, human errors can be drastically reduced, eliminating risks of inaccurate reporting.

## 5. CONFIDENCE IN MAKING THE RIGHT DECISIONS

Executives have great responsibility in prioritizing and approving the right projects that support the organization's strategic goals and contribute to profitability and growth.

A unified solution with real-time data and reliable supporting documents is what they need to have more confidence in making the right choices on behalf of their organization. And if they need more details, they can systematically collaborate with the stakeholders involved. All this is done within the platform, so the comments and communication can be recorded for easy reference. This makes for valuable learning opportunities for future requests.

And once the chosen projects kick-off, management would have visibility of the progress and health status through real-time analytics. For instance, they can monitor actual expenditures against approved investment budgets in graphical form to obtain a clearer picture. They can slice-and-dice a project portfolio to get to the bottom of a project exception. This is especially useful in detecting early warning signs from projects that need intervention. This way, they're assured that the projects they've invested in are on track to achieve their goals.
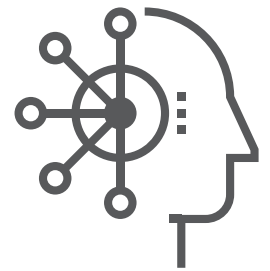
**HUMAN ERRORS CAN BE DRASTICALLY REDUCED, ELIMINATING RISKS OF INACCURATE REPORTING**

# HOW YOU CAN USE THIS
# Research Report

*Understanding what companies are doing and how they are changing can help others embark on a path of transformation. Whether you identify with the three most common methods companies are using to manage their CAPEX processes or face similar CAPEX management challenges, this research report provides insightful information on the overarching benefits companies stand to gain by embracing CAPEX digitalization.*
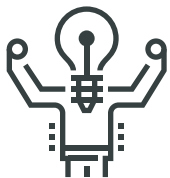
## 1. INCREASE PRODUCTIVITY AND VALUE

The streamlining and automation of CAPEX processes reduce manual and repetitive tasks. As there's no need to manually facilitate the process anymore, the personnel involved can work on initiatives that contribute to company's bottom line, hence increasing employee productivity.

At an organizational level, faster execution of selected CAPEX projects translates to quicker benefit realizations and investment returns. This increases your organization's efficiency and drives up its value.

## 2. MAINTAIN SECURITY AND COMPLIANCE

Leveraging the SAP authorization framework, user access rights are enforced along with confidentiality of commercially sensitive projects. The last thing you need is to have details of a confidential project in the wrong hands.

And with audit trails activated in all data edits and workflows, you'll have readily available evidence to guarantee governance and compliance.
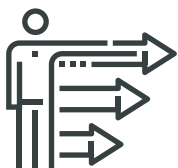
## 3. GAIN COMPETITIVE ADVANTAGE

IQX CAPEX helps ensures that your project portfolio is highly aligned to your strategic outcomes. Through efficient approvals of prioritized CAPEX requests, projects are set in motion to achieve their goals. By achieving value realization upon completion of these projects, you gain a competitive edge.

# Conclusion

IN THIS DIGITAL ERA, LEVERAGING PROCESS AUTOMATION AND YOUR CORE SAP ERP SYSTEM WITH IQX CAPEX WILL HELP MITIGATE RISK AND ENSURE CONTINUING ORGANIZATIONAL SUCCESS.

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