

## Major Capital Decision? Consider Applying a Customized Tool



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Off-the-shelf software, such as the kind used for basic accounting or word processing, is typically great for meeting standard business needs. It can be challenging to use commoditized software to assist with more complex calculations or decisions, such as those involving major capital projects, without significant thought, preparation and execution of utilizing higher-level functions.

Specialized, big-ticket and enterprise-critical projects that depend on software tool analytics and assistance typically require significant financial and time investment that comes with custom applications. That was the reality faced by a leading health system nearing several key decisions regarding a major capital project. The organization's leaders wanted to make the best-informed choices possible regarding their project need, including around the project's potential financial, operational and community impact. They lacked a tool, however, to properly factor in multiple financial metrics, such as cost of capital, payback period, and growth rate.

Rather than relying on off-the-shelf software as-is, the health system chose to develop a customized forecasting tool capable of providing the analytical and scenario-planning capabilities its leaders needed to make well-informed decisions. Ultimately, the tool the organization gained, which allowed for evolving and time-modified inputs and assumptions, gave decision-makers a new and valuable way of looking at different scenarios to gauge

multiple potential project risks and opportunities.

The lessons this health system learned in creating its customized forecasting tool offers valuable insights applicable to any health care organization seeking greater analytical insight about a major capital decision. Following are five key factors which should be considered whenever developing a customized tool for capital project planning.

1. **Consider flexibility and growth potential** – One of the greatest benefits of a custom solution is that it can be initially built to fulfill the minimum requirements needed now, but later expanded or tweaked to meet additional or changed requirements. It also needs to match your specific business needs and processes. Be sure up-front that the custom tool you begin building has the flexibility and potential to meet your future needs.
2. **Factor in multiple impact potential** – Decision-making around major capital projects inevitably leads to a series of “What if?” and “What about?” impact-related scenarios and questions. As questions like these are folded into the capital decision-making process, the analytical tool informing such decisions needs to be powerful enough to properly account for a variety of uncertainties. After all, the primary goal of a tool like this is to reduce decision uncertainty.
3. **Gain stakeholder support** – Analytical tools are truly useful only if they’re used properly and provide their users with a high degree of confidence in their functionality and accuracy. That’s why it’s important, when developing a custom tool, to get input and support from all key stakeholders who will ultimately rely on this means. The greater an opportunity you provide to stakeholders to have a voice in a custom tool’s development, the more likely it will consistently meet stakeholders’ needs, interests and confidence levels.
4. **Document inputs and assumptions** – Customized tools are put together based on a series of inputs and assumptions about things as they stand *today*. What happens *tomorrow*, if and when any of these inputs and assumptions prove incorrect, or are changed by factors beyond anyone’s control? Will there be finger-pointing and insinuations made about the tool not being properly built at inception? Or will a carefully documented series of inputs and assumptions serve as the foundational standard for your tool, and allow everyone to quickly agree on necessary updates and changes?
5. **Employ the best resources possible** – Depending on your projected capital project budget, the cost of a customized solution is likely a mere fraction of that total. The true value of a custom tool used for capital project decision-making comes in risk reduction – the degree to which this tool helps you avoid making a potentially very costly wrong decision. Against that context, consider the “savings” to be gained by employing the cheapest solution provider available versus striving to capture the best resource possible.

Ultimately, your goal should be the same as the health care system which created its own capital project forecasting tool. They sought – and gained – a tool which would deliver the functionality, adaptability and

specificity they needed to confidently decide about their major capital project. With that kind of capability in hand, you too can gain a tool offering similar decision-making power. And rest assured you've done as much as possible to make the best financial decisions possible.