

FORTNA

Thought Leadership Series

Capitalize on CapEx: Smart Budgeting Strategies for Long-Term ROI



Capitalize on CapEx: Smart Budgeting Strategies for Long-Term ROI

Tariffs, sourcing challenges, policy changes and economic fluctuations are causing elevated macroeconomic uncertainty around the world, making it difficult for supply chain professionals to forge ahead with confident business decisions.

The result? Many companies are tightening budgets and delaying investments until a clearer path emerges. Simultaneously, warehouses and distribution centers are expected to accelerate productivity and perform at peak levels to fulfill surging demand with a dwindling workforce.

Now is not the time to pump the brakes on innovation. As stated in a recent McKinsey report, companies that invest in innovation during uncertainty or crisis emerge stronger than their competitors and sustain accelerated growth.¹

Innovation is critical to maintaining a competitive edge. However, you may be wondering, how can I confidently stretch my budget to meet ever-changing demands in an uncertain climate?

In this article, we dive into the differences between allocating capital expenditure (CapEx) vs. operating expense (OpEx) budgets and how you can implement strategies to optimize your budget, drive confident investments and achieve a strong, sustainable return on investment (ROI). Let's get started with the basics.

1

<https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/innovation-in-a-crisis-why-it-is-more-critical-than-ever>

Key differences between CapEx and OpEx

Both CapEx and OpEx are essential to keeping your operations running seamlessly. Gaining a solid understanding of your expenses can help boost profitability and streamline your budgeting process with informed and impactful financial decisions.

- **What is CapEx?** Capital expenditures (CapEx) are strategic, long-term investments used to acquire, upgrade or maintain fixed or physical assets that provide ongoing benefits for your facility. Some examples of expenses that can be classified as CapEx include property, buildings, vehicles, equipment and warehouse automation technology. CapEx may also include intangible assets, such as software licenses. CapEx carries tax benefits through depreciation.
- **What is OpEx?** Operating expenses, commonly referred to as OpEx, are ongoing, recurring costs that keep a facility running day-to-day. Examples of costs that can qualify as OpEx include labor, utilities, rent, maintenance and software subscriptions. OpEx is tax-deductible in the year the expenses are incurred but cannot be depreciated over time like CapEx investments.

With global uncertainties escalating, many supply chain professionals are seeking ways to stretch their budgets while reducing risks. Some companies are shifting to OpEx models to gain more financial flexibility and reduce hurdles on the front end.

OpEx, such as leasing or an “as-a-service” model, enables organizations to rent technology instead of purchasing, shifting from a large upfront capital investment to smaller, pay-as-you-go subscription expenses. In addition to a lower upfront commitment, OpEx budgets also typically have shorter internal approval workflows—two advantageous factors in today’s tight market.

However, this model may not be suitable for all distribution operations and technology solutions. In fact, it may ultimately cost you more in the long run. Optimizing your operations through OpEx models can result in limited solution customizations, higher cumulative costs over time, no ownership and minimal training and ongoing support for your systems. While OpEx budgets typically move faster across the finish line for approvals, the trade-offs could inhibit long-term gains.

Alternatively, CapEx requires a larger upfront investment but provides long-term benefits and flexibility to future-proof operations. Capital assets are expected to be utilized for more than a year, generating revenue and increasing efficiency over extended periods of time.

Instead of focusing on the short term and attempting to shift as many expenses to your OpEx budget as possible, it may be more beneficial to consider CapEx to drive sustainable, lasting results. It’s important to look beyond quick wins on a balance sheet—focus on the big picture. Your biggest payouts will come from long-term solutions that present a clear ROI.



3 paths to optimize supply chain CapEx budgets

Fortunately, you don't need to completely overhaul your operations when focusing on CapEx allocation. There are different strategic paths to optimizing CapEx budgets that ultimately reduce risks, increase financial flexibility and drive high-value impacts. Here are three ways to get the most out of your CapEx budget and reap returns, even in times of uncertainty.



#1: Sweat the assets: extend the value of your previous CapEx investments

Get more out of your existing system by sweating the assets. Through this approach, you maximize the utilization and return from resources, equipment and technology that are already in your operations.

By optimizing your existing assets, you can draw more value from your past capital investments. Make marginal investments to upgrade or retrofit your existing equipment instead of implementing new projects. This allows you to delay significant CapEx investments and extend the life of your current assets.

In addition to the hardware and physical assets in your facility, you can also leverage software systems, like FORTNA's warehouse execution system (WES), to gain real-time visibility into your workflows. The data will help you quickly identify and address inefficiencies to ensure seamless orchestration across your people, processes and technologies.

Optimize past CapEx investments with:

- System upgrades and retrofits
- Small-scale modernization projects
- Software enhancements
- Data-driven operational design to fine-tune systems



#2: Take a phased approach with modular, scalable solutions

Once you have analyzed and optimized your existing systems, you may determine that you need to invest in new technologies. But keep in mind, not all facilities need to take a “big bang” approach with immediate end-to-end automation at greenfield sites. When planning your investment, start small and scale gradually with an adaptable, modular automation solution to stretch your budget and not overcommit.

Scalable solutions allow you to take a phased approach with incremental additions over time to fit your objectives, growth and budget. Increasingly, supply chain professionals are taking this phased approach and performing scenario planning, adapting their budgets and designs based on changing conditions. This level of flexibility can only be achieved with technology that is adaptable for incremental additions.

For example, high-density automated storage and retrieval systems (AS/RS) are built for flexibility and scalability to grow with your business. Adaptable systems provide the ability to spread your CapEx budget into phases to expand storage aisles, add grid modules or add shuttles or lifts as needed over time. The AS/RS data integrates into warehouse execution system software, where you can access real-time, data-driven insights to make advanced optimizations that maximize throughput.

Your automation, robotics and software technologies will help you drive meaningful results, lowering operating costs while accelerating productivity for a strong ROI. When your solution produces a strong ROI and boosts your bottom line, you can reinvest your return and scale your systems even sooner.

Over time, monitor your improvements to ensure your project continues to drive value. Prioritize flexibility and scalability to stretch your CapEx budget and ensure that you can quickly adapt to changing demand patterns and business growth without overspending.

Focus on flexible solutions:

- Start small and scale gradually with a phased approach
- Leverage adaptable, modular technology solutions
- Analyze data to make improvements
- Evaluate your ROI to ensure your project is driving value

#3: Select the right partner for long-term ROI

One of the most critical components to maximizing your budget and ensuring success in the long term is finding the right automation partner. Automation partners should take the time to fully assess and understand your operations to help you stair-step into your project.

Integrators who have dealt with the biggest and most complex systems will provide the most knowledge and experience to assess trade-offs and alternatives, provide realistic expectations and identify optimizations for amplified growth.

The right systems integrator will partner with you throughout the entire lifecycle of your system, including pre- and post-implementation. Search for an integrator who is collaborative and will provide tailored training programs and ongoing support for your teams. Their approach should be more than transactional—an automation partner should demonstrate long-term dedication to meeting evolving demands for agility and resilience.

Future-proof operations with a smart CapEx investment strategy

Supply chain professionals are under tremendous pressure to make the right investments for the right solutions at the right time. Focusing on OpEx may help facilities act fast for quick wins in the short term, but taking a long-term approach to optimizing CapEx with the right partner will drive the biggest impacts.

At FORTNA, we take a consultative approach that empowers you to confidently allocate resources and make business decisions that will generate a strong ROI for years to come. Our first step is to fully understand your specific challenges, goals and systems. Our team evaluates and sources the best-fit technologies and solutions to meet your goals today and grow with you into the future. FORTNA has decades of experience crafting tailored solutions for the most complex systems.



We ensure that our solutions are flexible and scalable to enable sustained success while optimizing CapEx budgets for a maximum return. For example, the FORTNA AutoStore solution can easily be adapted over time. You can add more robots, goods-to-person (GTP) stations or bins to an operational system without disrupting productivity. This solution also enables you to expand the grid to accommodate increased storage needs.

Real-world example:

Moen increased throughput by 435% with a FORTNA AutoStore solution. [Learn more.](#)

FORTNA will help you evaluate all options to get the most out of your budget and deliver results throughout all stages of our partnership. Our experts also provide comprehensive support and maintenance services for the entire lifecycle of your solution, including preventive health checks that keep operations running at peak performance for a boosted return.

We partner with you to help remove uncertainty and risk from your decisions. Start optimizing your budget today to make confident investments that will help you emerge from uncertain times on top.

FORTNA

FORTNA CAN HELP

Unlock future growth today. FORTNA can help you assess your current operations and identify high-impact strategies that will maximize your budget and drive long-term success.

Contact us today at www.FORTNA.com