

The Many Faces of Capital Projects

Contributed by Berthold Kastel
Wednesday, 14 November 2007

Recently I was part of a conversation in which the building of a nuclear reactor was described as a "capital project". I was asked how best to use SAP and Primavera to manage such a process. There is more than one way of addressing this question, and so I am going to ask a few questions myself, without addressing details of the process answer itself.

Who is the owner of SAP in the above example? Is it a general contractor (GC) who is supposed to manage this project? Or the buyer and future asset owner? The answer to these questions determine whether we are even talking about a capital project or a "make-to-order" project.

If we assume a utility buys a nuclear reactor as a turnkey product, and the user of SAP is the seller of a reactor, requirements on SAP are somewhat similar to but still in many aspects quite different from a pure capital project. We are then talking about integration with the sales and distribution (SD) module of SAP, milestones may or should trigger client billing, and there may be an interaction with the production planning (PP) module of SAP. Also, financial flows are different as for example WBS elements and network activities will be settled differently.

The flip side is that for the buyer this product definitely is the result of a capital investment. An asset is being produced. Looking out of their perspective and assuming that they run SAP as well, they probably have set up their own WBS structure as well, with a budget, and integrated with asset accounting and financial accounting.

The whole picture can get more complicated when joint ventures for the production and delivery of such products are being considered. Then the choice of tools may be the biggest question to be answered in the first place, not their setup.