

MANAGERS AND EXECUTIVES SKILLS

Selling Automation Projects Internally

WHAT DOES JUSTIFYING AUTOMATION MEAN? "DEVELOPING A COMPELLING BUSINESS CASE THAT SUPPORTS INVESTMENT IN AUTOMATION," ANSWERS PETE SHARPE, principal consultant with Emerson Process Management (www.emersonprocess.com), the Austin, Texas-based automation supplier. "Enabling the business and adding value to the business!" responds Hannes Mittermaier, unique application manager with global energy company Sasol Infrachem (www.sasol.com), in Sasolburg, South Africa.

Besides the obvious need for a project sponsor, who else should be involved? "You need buy-in from top management," Mittermaier recommends, adding that financial people must be involved to help with the economics of the project. Sharpe similarly defines the key stakeholders as plant management, operations, maintenance and process control. "Early involvement ensures that their needs, requirements and opportunities are considered," he adds.

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What's a sure-fire winning strategy for successfully justifying an automation project, whether it's an upgrade or new installation? "Build a realistic, compelling, economically based investment analysis that shows a high return with low risk," Sharpe counsels. "This applies to upgrades as well as new installations and complete 'rip-and-replace' projects."

There are several calculations that may be used to determine the justification of an automation project, including return on investment (ROI), return on assets (ROA) and total cost of ownership (TCO). Is one better than another?

"Traditional evaluation techniques need monetary values for benefits and costs," Mittermaier observes. Emerson typically uses ROI in its analyses, Sharpe remarks. That's because it represents a well-known, understandable metric that is a common across most businesses that considers the time value of money, he notes. "The investment analysis in the ROI should consider the net cash flow, including both benefits and full costs to install and support the system over the lifetime of the new assets."

What's an acceptable payback period? "For small investments funded as an expense item, payback needs to be a year or less," Sharpe says, adding that for capital projects, payback is usually expected in one to three years. "Some automation projects have a longer payback, but are justified based on obsolescence (i.e., reduction of risk of outages) or a 'stay-in-business' investment."



But besides acceptable payback periods, investments must meet acceptable margins of return. So what margin determines if a project is acceptable? "That really depends on the company's hurdle rate, cost of capital, strategic fit and competing projects," Sharpe remarks. "It (the margin) varies with the credit rating, interest rates, evaluation of risk, size of investment and the like." Sasol's investment criteria require all growth projects to meet hurdle rates of at least 1.3 times the weighted average cost of capital, Mittermaier states. Those hurdles depend, he adds, on whether the South African rand or the U.S. dollar is the basis for the return.

Once all questions have been answered, the project proposal must be presented to the appropriate company officials for their approval. What format or formats should be used for these presentations? "I believe in the KISS (Keep It Simple and Straight) principle," Mittermaier declares. "Presentation slides should be easy to understand, not too busy and only convey the key aspects. Use business language for top management."

Avoid catastrophe

How do you sell projects that meet neither expected ROI nor fall within the expected payback period—the obsolescence/stay-in-business type projects? "You sell these based on the risk of outage from old equipment that is no longer supported or available," Sharpe says. "The longer the delay upgrading the system, the higher the risk." Why? Because even though the probability is low, failure would have catastrophic economic consequences, he says.

Whether companies use ROI, return on capital employed (ROCE), economic value added (EVA) or some other value-based metric as the high-level financial objective, they have two basic strategies for driving financial performance—growth and productivity, Mittermaier believes. Those are the real justifiers of automation projects. 

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