



How to Determine **AUTOMATION ROI**

$$\text{ROI (\%)} = \frac{\text{Benefits} - \text{Costs}}{\text{Costs}} \times 100$$

The manufacturing world is rapidly evolving. And so is the way we go about determining ROI. While there are ROI calculations that remain the core of any analysis, there are dynamic factors that must be considered as well. This whitepaper explores both, and provides a 7-step process for doing an ROI analysis of industrial automation.

THE ROI FUNDAMENTALS

There are several core ROI factors that are fundamental to any ROI analysis. So these must be included in your analysis to start. These include:

- **Capital investment:** How much will it cost to develop, deploy? Are there any business disruption costs that need to be factored into the equation?
- **Ongoing operating costs:** What will the solution cost to operate? How do those costs compare to current costs?
- **Operational benefits:** What are the near-term and longer-term benefits for payroll, training, maintenance and operations?
- **Opportunity costs vs. alternative investments:** What else could you have done with your capital?
- **Cultural impact team members:** This is a critical consideration. What is the potential impacts to your work culture and people?
- **Competitive factors:** Will the project make you more competitive? Does it provide any immediate and lasting competitive advantages?
- **Labor factors:** Does the solution reduce or change your labor needs and requirements?

THE SHIFTING ROI FACTORS

Now that you've consider the fundamentals, we now must look at the dynamic factors that are changing the ROI equation.

LABOR: It's Still About LABOR But It's About AVAILABILITY vs. COST

In the past, companies seeking to automate have tended to look at the cost of labor, but availability of labor or the lack thereof is today's overriding factor.

Escalating labor costs and smaller labor pools are predicted to last for the next several decades. And scarcity will continue to drive up costs. If you are in an industry that relies heavily on labor, your ROI must be evaluated through the lens of labor availability. You'll need to find ways to run your operations with fewer and fewer people.

CUSTOMER: Customer SERVICE & EXPERIENCE now Trump COST-SAVINGS.

- **FACT:** Businesses that prioritize customer experience have a revenue increase of 4-8% higher than their competitor. *(Source: Forbes)*
- **FACT:** A positive customer experience encounter can increase customer spending by up to 140%. *(Source: Deloitte)*



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In the past, product innovation and quality were key drivers of revenue. Today's it's customer service and experience. If automation can help improve your customer service...get a better quality product to your customer faster...what would the ROI be on that? And, if automation allows you to serve more customers, reach more markets and expand your footprint, the costs shrink in relation to the value.

So customer service/experience must be in your ROI analysis—equally important if not more so than overall cost.

ROI RELIABILITY: Make it DATA-DRIVEN vs. strictly BEST GUESS.

We all know that analyzing ROI is a bit of a best guestimate. However, doing some project simulations are one way of giving you a deeper understanding of the process, its impacts both upstream and downstream. Simulation requires a lot of upfront work—collecting data.

SAFETY: Is an ABSOLUTE and Not Just IMPORTANT.

Safety has always been important, especially in manufacturing. When the work is dirty, dangerous, inherently non-ergonomic and difficult, it was always a critical automation factor. Today, that's more important than ever because people will simply veer away from working those types of jobs. If they're constantly lifting, twisting, turning, and pushing through awkward, injury-prone work, they're more likely to leave it for something safer and easier.

Safety and a comfortable work environment are critical employee retention factors. Automation can help you retain more workers and reduce the inherent injuries and risks in industrial operations. It can also let you upskill your workforce, giving them development opportunities, which are also key to retention.

INDIRECT BENEFITS: These Matter More Than Ever - As Much As DIRECT ONES

Direct benefits tend to be easy to measure in time and dollars, so have always been favored over indirect ones when, in fact, indirect benefits may offer the most value and return. That's because many are focused directly on labor. Things like ergonomics, injury rates, space savings, training and education factors, employee churn, product damage and improved security reduce ongoing operational costs.

As the Economic World Around us Changes, so Must our Approach to Work & ROI

We hope this brief article helped expand your thinking about how to evaluate the ROI of a possible automation project. Our automation experts can help you draft a highly visual concept, run a simulation and develop a proposal complete with ROI.

It's a fact. We'll need to keep being able to run our business with fewer and fewer people. Automation is just one way of helping you do that, but it's just one piece of the puzzle.

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