Economic Benefits of Hygienic Design

Or, “How am I going to get my project approved!?!?

Presented by David Dixon

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The Basic Idea:

Capital Investment, when amortized, is a small contributor to Cost of Goods Sold but has a significant leverage effect on other components of COGS.
My Background

• Acquisitions, Consolidations
• Project Management
• Cross-border Projects
• Commercialization
• Product Cost Accounting
• Sanitary Design
Topics

• Approval Criteria for Capital Requests (CR)
• Pressures, Trends and Competition for $$$
• Building a case, finding the savings
• Winning the Argument

“If you can't talk about the money, just stop talking!”
Trends Impacting Capital Investment

- Pressure to perform—short termism
- CEOs from outside the sector
- Pressure after a merger
- 60% Cost Savings Projects, now 20%
- Tightened Payback—less than 2 yrs.
- The elusive savings numbers

“87% of Executives are pressured to deliver strong financial performance within two years”  
*FLCT Global*

“80% will sacrifice longer-term economic value in order to meet quarterly earnings expectations”  
*Mckinsey*
### Costs
- 20% to 2x equipment cost
- 3% to 10% facility cost
- Longer lead time
- Complexity/Automation
- Availability
- More Utilities (or Less!)

### Savings
- Longer runs, Higher Asset Utilization
- Reduced Maintenance
- Higher OEE
- Add ’l Capacity, Higher Yields, Less Scrap
- Reduced Risk- to Brand, to Customers
- Less Chemicals and Labor
- Lower waste water treatment costs
- Lower QA costs, fewer holds, less rework
Added Cost for Hygienic Design

- Fabrications
- Materials of Construction
- Wash-down specs
- Details
- Space
- Raw/Cooked Separation
- Dedicated equipment
- Utilities
- Room Environments

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Digression: Product Cost Accounting

- Which corporate cultures?
- Which staff?
- Granularity
- Whose ox is gored?
Digression: Amortization

CFO wants shorter depreciation

Sales and supply chain want longer depreciation
Why savings can’t be claimed in a CR

- Elusive Numbers
- Managers won’t commit
- Avoided costs not allowed
- Savings not believed
- Sales forecasts (available margin) not believed
Huge Variety of Corporate Viewpoints

No Hurdle rate for Food Safety
Cost of Quality not measured
Risk – product safety – not quantified
Recent recall
Importance of Branding
Which department has clout?
Competition
Customer pressure
Saving face

"Many believe that sanitary design principles only support the organization’s food safety program and that food safety risks can be managed via procedures rather than by spending capital."

Randy Porter, Conagra
Techniques to build a case

- Assemble the right team
- Shift from “savings justification”
- Focus on Key Business Drivers
  - Business Risk
  - Safety
  - Customer Service
  - Margin
- Extend depreciation
- Fear!
- “Stake in the Ground”
Conclusions

Is the pendulum swinging in our favor?
• Regulatory -- FSMA
• Prosecution—Individual criminal liability
• Industry—Op-X, GFSI
• Consumers—Google, Apps
• News cycle

“Never give up. Never Surrender!”
Cmdr. Peter Quincy Taggart