



*3A SSI 2019 Education Program and Annual Meeting, May 14, 2019*

# Economic Benefits of Hygienic Design

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

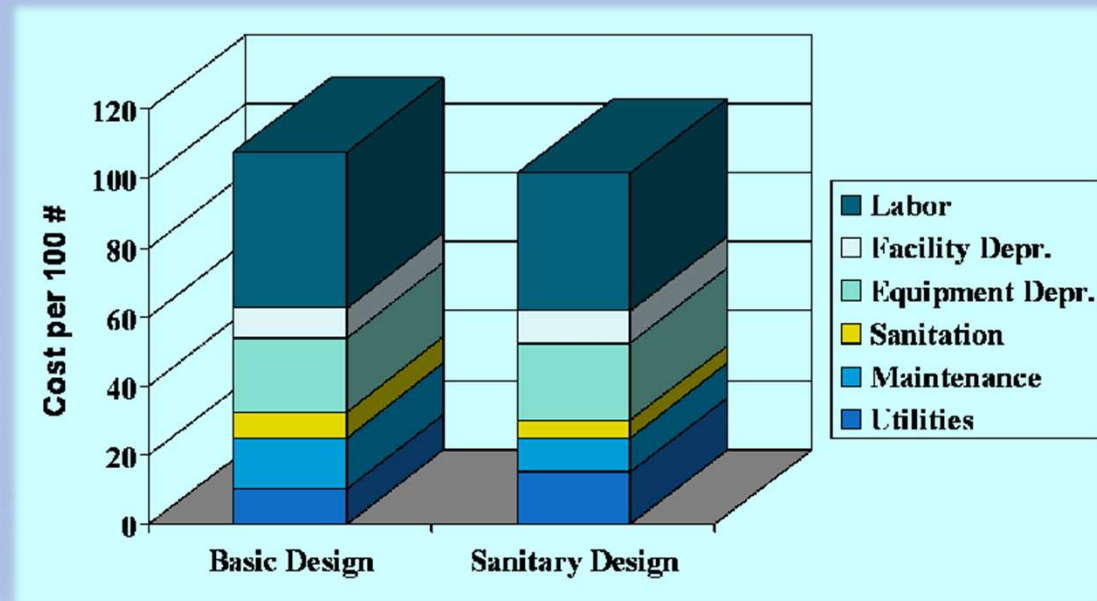
Presented by David Dixon

*President, davidcdixonllc*



# 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*





# Cost Benefit—and what is allowed...

## 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

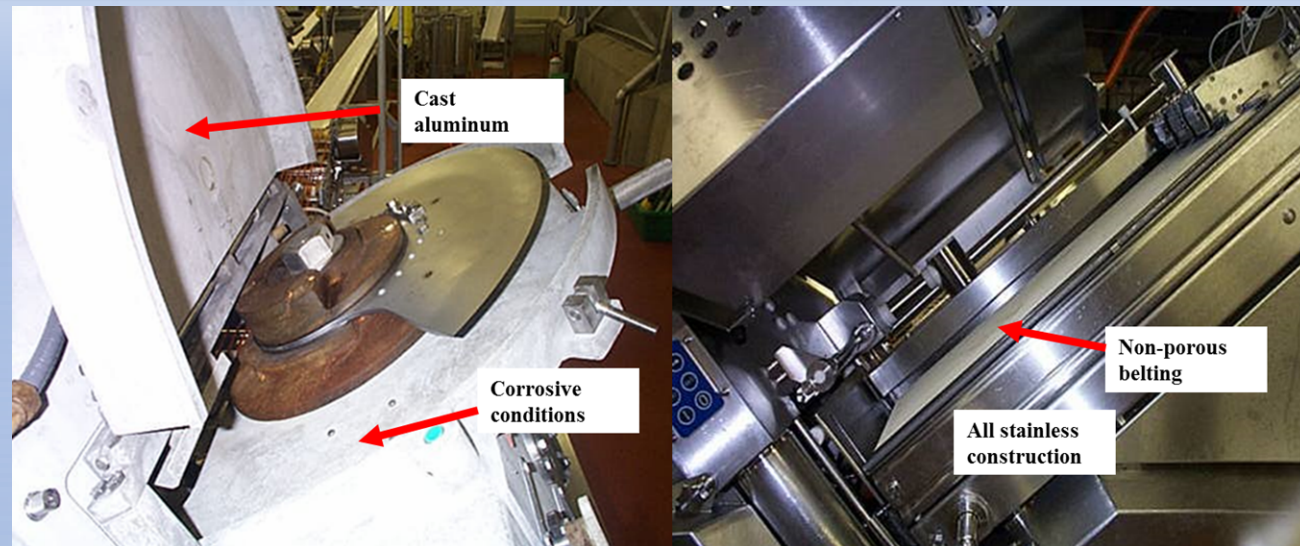
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**TOTAL COST  
OF OWNERSHIP**



# Added Cost for Hygienic Design

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



**From This** **To This**  
**Previous Design** **Sanitary Redesign**





# Digression: Product Cost Accounting

- Which corporate cultures?
- Which staff?
- Granularity
- Whose ox is gored?







# Digression: Amortization





# 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*