

Positioning the Economics of Improved Efficiency – IHEA Series – Part 2

It's one thing to have a great idea—a new industrial design or a re-engineered process—that you KNOW can help improve efficiency at your company. But can you sell it to upper management? Can you make a convincing case for that long-time nemesis of technical wizards everywhere: Return on Investment (ROI)?

This certainly holds true in the Process Heating industry. No matter how much a refined process can save energy, enhance safety, or improve production efficiency, such changes have to be positively reflected in one place—the bottom line. You've got to be able to translate these supposed new advantages into DOLLARS SAVED. And bear in mind that while virtually every C-level executive must demonstrate fiscal responsible on behalf of his or her company, the pressure is REALLY on those who work for a publicly owned enterprise. Stockholders care about stock prices, plain and simple.

That said, within both private and publicly held companies, the dreaded “corporate attitude” most often dictates that safer is better. “Don't take chances with innovation; things are fine as they are.”

So how can you get around that?

Making the Case to Management: 'Us vs. Them'

A lot of stalling comes from an "Us vs. Them" mindset that tends to come with corporate structure. This means you have to communicate with key members of upper management from Day One about your plans for improvement. This will give insight into both corporate finances and corporate needs that you normally may not know. Such knowledge and collaboration can more rapidly help move process heating efficiency improvements to the top of the corporate priorities list.

Once communication is open, it's time to identify and compute the total dollar impact of an efficiency measure. As in any industrial/manufacturing setting, process heating systems offer many opportunities for improvement. For example, research may lead to the discovery that in a particular case, fuel costs may represent 90% of the costs of a certain process, while initial capital outlay is only 5% and maintenance is also only 5%. Hence, any improvement that can reduce fuel consumption would be viewed as a favorable change—and a favorable investment.

Another consideration as you think about recommending an upgrade is the Payback Period: The time it takes for an improvement to actually deliver ROI. Under a variety of situations within any company, a short or long Payback Period may work. Short of knowing what might work at your company within the considered timeframe, a two-pronged proposal covering both extremes might be appropriate.

Speaking the Right Language

The sheer concept of improved process heating system efficiency in and of itself should be a strong enough

incentive for investment. However, many executives may not see such savings for what they are. This is when it's necessary to "talk turkey." In other words, communicate the cost savings in terms they understand and interact with every day in their respective roles. For example:

- Equate any savings inherent in your improvement recommendation as a **newfound source of capital** for the corporation. Regardless of how the efficiency investment is financed, whether borrowing, retained earnings, or third-party financing, the annual savings will be a permanent source of funds as long as efficiency savings are maintained on a continuous basis.
- In a public setting, position your investment idea as a **way to enhance shareholder value**. First identify annual savings (or rather, addition to earnings) that the proposal will generate, then multiply that earnings increment by the price-to-earnings ratio. This will yield the total new shareholder value attributable to the efficiency implementation.
- Position your recommendation as a **compliance issue** as well as an efficiency issue. By improving efficiency, the corporation enjoys two benefits: Decreased fuel expenditures per unit of production, and fewer incidences of emission-related penalties.
- Process heating system optimization requires ongoing monitoring and maintenance that yields safety and comfort benefits, in addition to fuel savings. The routine involved in system monitoring will usually **identify operational abnormalities** before they present a danger to plant personnel—a constant concern for management.
- An improvement in efficiency may directly result in a **more productive use of assets**. By ensuring the integrity of system assets, virtually any facility manager can produce more reliable plant operations. From the corporate perspective, this represents a greater rate of

return on assets employed in the plant.

To further discuss the best ways to properly position an investment in operational efficiency, contact us by clicking [here](#) for more information.