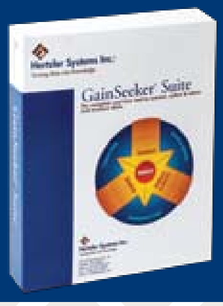

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Making the Business Case

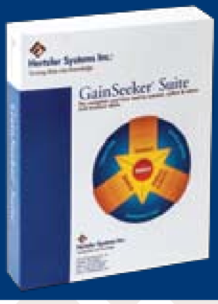
ROI Guide

Company:

Location:

Completed by:

Date:



1.

Easy to Start:

- **Easy SPC Resource Kit -** hertzler.com/journey
- **Complimentary Trial** - hertzler.com/trial
- **Implementation** - hertzler.com/implement

2.

Easy to Use:

- **Training** - hertzler.com/training
- **Using** - hertzler.com/coaching
- **Adapting** - hertzler.com/tuneup

3.

Easy to Win:

- **Level 1**: "Guard" - hertzler.com/guard
- **Level 2**: "Guide" - hertzler.com/guide
- **Level 3**: "Gain" - hertzler.com/gain

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Contents

Pages

Should you have any questions while using this workbook, please feel free to contact us.

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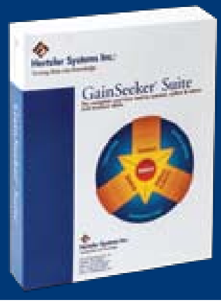

GainSeeker® Suite | Easy to Start.

By Evan J Miller

Implementing an enterprise SPC Software system such as GainSeeker® Suite can carry a price tag as low as $10,000 or it can range well into six figures. But is implementing SPC software a cost or an investment? This white paper looks at several typical GainSeeker Suite deployments and reviews the return on investment from the customer's perspective. From this we can draw general conclusions about the impact SPC software has on the bottom line.

SPC software, no matter how good, is a tool for changing the way you do business. To be effective – to realize the benefits from your investment – you and your organization must be willing to change. Often that willingness is fueled by some profound event – the loss of a significant customer, a major recall or safety risk, a downturn in the economy, and so forth. These profound events can galvanize your team to action, and SPC software can make the change easier and more cost effective. Realizing the benefits described here doesn't occur because you've installed GainSeeker on a server somewhere and then sat back and waited for change to happen. Benefits happen because someone had a vision for how readily available real-time actionable data could transform the way their organization worked.

Benefits happen because someone had a vision for how readily available real-time actionable data could transform the way their organization worked.

SCOOTER MARGINS

One common way to look at the return from your investment in implementing SPC software is to look at reduced labor costs. Considering only automation, these projects pay for themselves in

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two years or less. While this meets the minimum return on investment requirements for most companies (18–24 months), these are what we like to call *"Scooter Margins."* The difference between cost and return is something that you could comfortably drive a scooter through.

Considering only automation, these projects pay for themselves in two years or less.

I experienced a typical example of this is at an auto parts supplier that I visited. As we toured the facility, my guide pointed to one workstation and said, *"There is one area where we've saved quite a bit of time."* At that workstation alone, GainSeeker had freed up the equivalent of one full-time inspector to perform more value added work. (This time savings pleasantly surprised him.)

Similarly, another customer used GainSeeker's Dynamic Reports report writer to create a standardized product release report for their clients. The new automated process replaced a complicated multi-page report with a simple, one-page graphical report. The new report was more reliable and easier to use. These benefits came at the same time they freed up about one quarter of a senior quality engineer's time.

In both of these cases, the managers did not lay off their people because of automation. Instead they redeployed them for more value added activities. That is one reason we call these Scooter Margins. The investment may not trigger a return that is easy to measure and document, and it may never show up on the bottom line. Even when it does, it is most likely to take 12 – 24 months

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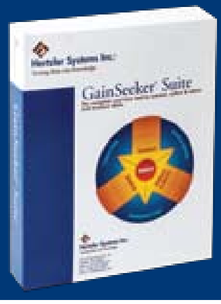

to be realized. This kind of payback is worthwhile, but it may not be a compelling case for a senior manager looking to maximize revenue and operating margins, and optimize asset levels.

BULLDOZER AND GALACTIC MARGINS

On the other end of the scale, some projects return what we call “bulldozer or even galactic margins” because they pay huge financial returns on the investment. Often we’ve seen the true savings downplayed because customers yield payback periods in weeks or even days, which may seem too good to be considered credible.

On the other end of the scale, some projects return what we call “bulldozer or even galactic margins” because they pay huge financial returns on the investment.

One example of this is a food packaging company that deployed GainSeeker Suite to monitor package weights. A few months into the deployment, the plant manager said *“I’m embarrassed to tell you how much money we’ve saved by reducing overpack (product ‘giveaway’).”* For this customer there was clearly a labor savings component. GainSeeker reduced the time it took to enter data, and generate useful charts and reports. The real value, however, is in what they did with the data. GainSeeker provided real-time alarms that let them know instantly if package weights were trending or unstable. Furthermore, they were able to track weights back to various operators, filling machines, and even filling head or lane. Armed with that information they could make improvements to equipment and processes, track the impact of their changes, and continually hone in on problems and address them.

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Their efforts paid off in two ways. First, they were able to reduce material costs significantly. (Food companies in the United States must meet or exceed their label claim for weight, count, or both. If they fail at this, they cheat the customer, they risk damaging their reputation AND putting themselves at risk of incurring regulatory fines. Any time they exceed label claim, they are giving product away. Given high-speed, high-volume production lines, this can add up to substantial financial losses very quickly.)

Second, they were able to open up operational capacity. By reducing overpack the company was able to put the same amount of product in more bags, which meant they could sell more product. They got paid more for the same amount of work and the same amount of material.

These concepts apply in other industries besides foods and foods packaging. High volume color printers, for example, must apply a minimum amount of ink coverage to ensure a satisfactory result. Any extra ink is costly waste. Similarly, powdered coatings, paints, platings, and surface coatings of all kinds are likely to have a minimum coverage requirement. Anything extra is typically not valued (and not paid for) by the customer. Instead it is *"given away"* resulting in increased costs. Real-time data can help you curb this by reducing giveaway.

Another example of bulldozer to galactic margins comes from a supplier of electronic components for the automotive industry. This supplier had a multi-year contract with one of the major auto companies, but one of his customers had given notice that the contract would not be renewed in coming years. This was because this supplier exceeded the contractual allowance of 10 defectives per million units.

While the components had passed internal test procedures, they had *"out of the box"* failures on the customer's production line. When the supplier investigated the root cause of the defects, they found that while all the units passed the test, the defective units had statistically different test outcomes on key parameters. (On specific portions of these tests, these units were *"in spec"* but "out of control".)

Given the volume of test parameters (hundreds per component) and the frequency of the tests (one every few minutes) it was impossible to manually capture and analyze all of the data. GainSeeker

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automated the process (freeing up labor for more productive activity) and provided automated alarms whenever there was a test result that was significantly different from the expected results. The result was instantaneous: the company was able to contain the bad units and prevent out of the box failures.

This significantly increased customer satisfaction and they retained the contract. Curiously, the CFO who signed off on the project was not very interested in customer satisfaction and sustaining or increasing revenues. He did not believe that the customer would terminate the contract, nor did he seem overly concerned about their reputation in the marketplace. Had I been running this business, I believe I would have had a different reaction.) What he was most interested in was the fact that units could be tested and cleared out of WIP (Work in Progress) and shifted to inventory faster. In their situation, they could bill the customer once the product hit inventory. A few hours made a significant difference to the CFO because of improved inventory turns and reduced WIP. That was measurable and important. The possibility of a lost contract was just that, a possibility, and for this CFO it did not carry the day by itself.

EXERCISE - Zero in on your opportunity

Every industry and every business is unique. Here are some questions to help you zero in on opportunities to improve the financial performance of your business with ready access to real-time actionable data.

1. Increase Revenues

a. Improved Customer Satisfaction. This higher level of satisfaction adds leverage to a company's sales and marketing initiatives.

How sensitive are your customers to perceived quality? ______________________________

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How important is social media, internet reviews, and word-of-mouth sales to your marketing mix?

Have you measured and calculated the relationship between customer satisfaction and sales?

If customer satisfaction goes down one percentage point, can you predict the impact on sales?

What role does manufacturing quality (for example, compared to design quality) play in customer satisfaction?

What is the relationship between manufacturing quality levels and customer satisfaction?

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b. Increased Operational Capacity. Improved efficiencies in labor and machinery increase output from a fixed level of resources.

Is manufacturing capacity a governor on revenue? ______________________________

Does demand for your product exceed your capacity to produce it?______________________

Is there a direct relationship between revenue and productivity, efficiency, or quality?

____

- Is rework (or regrind in plastics) an *"accepted cost"* of doing business because "it has always been this way?"____

2. Grow Operating Margins

a. Reduce Material Costs. Improve process material waste levels along with tighter tolerance levels. This reduces *"overpack"* issues in some operational environments.

Does your product require a minimum level of material, and is material over that minimal level given away to the customer? ____

Examples include any fill operation where the package is sold by a predetermined label weight, metal or paint coating, or ink coverage.

What is the volume of packages?____

What is the average giveaway? ____

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What is the total dollar value of the giveaway per year?________________________________

b. Reduce Labor Costs. Improve labor efficiencies and reduce rework.

How much time do your people currently spend:

Manually recording data on paper? ____

- Compiling, Sorting, massaging, or cleaning up data before you can analyze it or report on it?____
- Sorting suspect product because you don't have time to do timely inprocess inspection? ____

For example, if you inspect twice a shift instead of hourly, an out of control alarm means that you must sort four hours of production instead of one hour of production.

How much data gets filed in a filing cabinet (or in some database silo) never to be used again?

____

How often are inaccurate numbers recorded, causing false alarms, or a false sense of security?

____

3. Reduce Asset Levels

a. Improve Inventory Turns. Reduced cycle times positively impact inventory requirements in Raw, WIP, and Finished.

Is inspection, analysis, or reporting ever a bottleneck for releasing raw materials to WIP, or WIP-to-Finished-Goods Inventory?____

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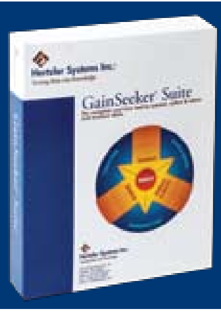

How much product do you have in WIP that is waiting for rework or repair?

What is the impact on cash and receivables?

What is the impact on your organization's credit rating?

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Summary

Not every business will benefit equally from readily available real-time actionable data. Moreover, the way that benefit is measured and evaluated varies from business to business, and even within the business. Consistently we've seen GainSeeker have a positive impact on users by reducing labor costs, reducing material costs, improving inventory turns, improving operational capacity, and improving customer satisfaction. These in turn drive reduced asset levels, improve operating margins, and increase revenue. **The key is to evaluate your business and understand how better access to readily available real-time actionable data can benefit your team.**

Related Blog Entries:

Three stages on the quality journey - Stage 1	www.hertzler.com/stage1
Three stages on the quality journey - Stage 2	www.hertzler.com/stage2
Three stages on the quality journey - Stage 3	www.hertzler.com/stage3
Pure Play SPC maximizes ROI	www.hertzler.com/pureplay

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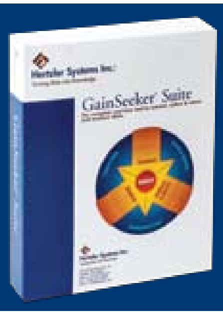


There are many ways to articulate the business case for a capital project.

If your company has a standard model, and you've already completed your model, please document below.

BUSINESS CASE SUMMARY

Here is an example:

An opportunity exists to improve and reduce material costs by optimizing product weights beginning with the Fill operation and ending with the Packaging Department. This effort should result in an estimated savings of $47,000 in the first three months of deployment, and an estimated $65,000 per quarter thereafter. This process is important to work on now because material costs have become more volatile and margins are at risk. This effort is chartered on May 21, 20xx. Our goal is to complete this effort by October 31, 20xx.

Here is one model that you may find useful:

An opportunity exists to improve ______________________________

beginning with ______________________________

and ending with ______________________________

This effort should result in ______________________________

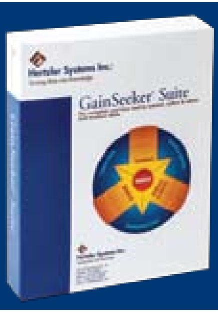
This process is important to work on now because ______________________________

____

____

This effort is chartered on ______________________________ .

Our goal is to complete this effort by ______________________________ .



Timing is everything!

The shorter the deployment time, the better chance you have to make things happen.

The real-world often only offers a limited window of opportunity to save a client relationship, get funding for improvement projects or establish the teamwork necessary to win.

EXERCISE - Pure-Play Plays Well

Will you integrate your SPC software with an Enterprise Quality Management System (EQMS) or Enterprise Resource Management (ERP) solution? Why or why not?

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ROI CALCULATION

Why now? Explain the situation in terms of an opportunity or threat related to specific client relationships, company moral, and/or supply chain relationships. ______________________________

____

____

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There are comparison columns for an SPC specific solution like GainSeeker, Enterprise Quality Management Systems (EQMS) and Enterprise Resource Management (ERP) solutions. As a "Pure-Play" SPC software provider, we encourage this comparison. According to LNS Research, "Pure-Play" SPC specific solutions like GainSeeker typically deploy in a few weeks and in most cases have a large and immediate payback. EQMS systems deploy in 6-12 months. ERP systems can take years.

> *"Based on over 500 survey respondents from a number of different manufacturing industries, we have found that SPC and real time visibility into quality performance has had a substantial impact on performance metrics like OEE, with a median benefit of 7%. It is also important to mention that pure-play solution providers in the SPC space can often implement more quickly and provide a quicker ROI than larger more comprehensive EQMS or MOM software systems."*
>
> \- Matt Littlefield, founder and CEO of LNS Research.

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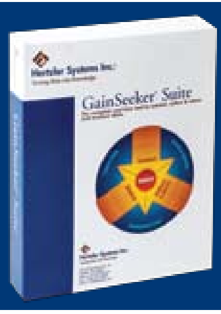

This is a basic Return on Investment model to get you started. Your finance professionals may calculate ROI differently.

This calculator works by:

[A] Determining the number of months you will receive returns

[B] Determining the monthly returns

[C] Determining the investment

([A] x [B]) - [C] = Net Return

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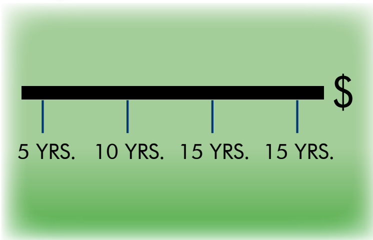
ROI CALCULATION
Continued...

[A] Number of Months You Will Receive Returns		GainSeeker	EQMS	ERP
	1. How long will the impact of your initial implementation be recognized?			
	2. How many months will it take for your initial implementation plan to be deployed?			
	[A] Total Number of Months Recognizing Returns (1 minus 2):			

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[B] Description of Monthly Returns (We suggest entering as Gross Margin Dollars per Month)	GainSeeker	EQMS	ERP
 1. Increased Revenue from Improved Customer Satisfaction (times) Gross Margin %			
 2. Increased Revenue from Additional Operational Capacity (times) Gross Margin %			
 3. Increased Operating Margins from Reduced Material Costs			
 4. Increased Operating Margins from Reduced Labor Costs			
 5. Decreased Finance Costs of Inventory			
[B] Total Return per Month			

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ROI CALCULATION

Continued...

[C] Description of Investment (Total Cost of Solution)	GainSeeker	EQMS	ERP
 1. Software, Hardware and Related Services			
 2. Implementation Man Hours (Mgt, Factory, Training)			
 3. Production Downtime			
 4. Maintenance of System Over Life of Program			
[C] Total Investment			

Basic ROI Calculation	GainSeeker	EQMS	ERP
([A] x [B]) - [C] = Net Return			

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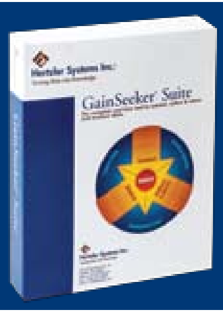

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1. Schedule your Demo - call # 800-958-2709 x 3

2. We'll send you a WebEx invite along with pricing and brochure

- Duration is usually 60-90 minutes.
- As many people as you wish; anywhere in the world
- Tailored to your needs - Hertzler customizes training to the unique needs of of the SPC software deployment roles. Other companies only provide a generic program.

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WebEx DEMO

3. Take your next step to becoming a world class manufacturer.

What you will see:

- Our capabilities
- Examples of problems we solve
- Examples of how these world class manufacturers are using GainSeeker
  - Snyders
  - Crown
  - SmokerCraft
  - and other World Class Companies

Industries:

- Food
- Electronics
- Automotive
- Aerospace
- Plastics
- And more...

"I'm not worried about getting finished, I'm worried about getting started." Get started by identifying your company's unique requirements.

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