

It's All About the Cost, Not the Price

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Case in Point: Smithfield Foods and Barry Wehmiller



James Couch

TWO EARLY ADOPTERS of the original *Total Cost of Ownership Playbook and Checklist* have become leading advocates in the drive for total cost of ownership (TCO) as a standard operating procedure for capital expenditure (CapEx) projects in our industry, with James Couch of Smithfield Foods providing the consumer packaged goods (CPG) perspective and Bruce Larson of BW Packaging Systems providing the OEM perspective. Both have put their time and energies behind the efforts to update the TCO playbook and develop a TCO user guide to make it readily adaptable to processors and suppliers alike.

FSO Institute: James, you were both an early adopter of TCO when it was first published and now engaged in making it even better and more user friendly for our industry. Is it fair to say that Smithfield has realized optimizing its capital expenditures, assuring better value on the dollars spent?

Couch: Presently we use TCO on a case-by-case basis, based on what can be compared, like equipment. Today it is not a one size fits all, but as the OpX group further defines the document, I believe it can be a major document used within our capital equipment toolbox decision-making process. As you know, understanding the total cost of ownership on equipment is a huge key in a company's decision-making process for capital equipment purchases. It's not about the price. It's all about operating cost.



Bruce Larson

FSO Institute: Given the scale of your organization, vendor relationships are critical in providing a consistent platform of operational excellence in all your plants. How do you use the TCO model to help drive innovation in quality, technology, and supply chain costs from your suppliers?

Couch: Steve, this is a big ask, so let me break this down a little. First, on the subject of cycle time reduction, there are several buzz words used today, such as OEE, TMax, etc. Simply stated, how do we achieve 100% of run time on equipment? I believe the TCO tool allows CPGs the ability to identify this prior to executing the equipment purchase by providing an understanding of the potential lifecycle of the equipment, cost and usage of the consumables, and man hours and parts required to maintain the equipment. Don't forget, there are additional services that should be considered and included with the TCO that are generally afterthoughts, such as sanitary design. For example, how the software component will be supported and maintained after the sale. Does the CPG employ the technical ability to support the software and logic, or does the OEM control the IP and, therefore, the ability to support future needs through an ongoing service program or software licensing agreement? Either way, it should be vetted prior to the purchase of the equipment.

Innovation through modularization is another area. The more the OEMs are able to design equipment and software with a modular thought process, the more it simplifies the maintenance and operational function and allows for versatility in the manufacturing process. In a CPG environment, the equipment requires a large footprint, but companies have limited floor space, and no one wants equipment sitting idle due to design restrictions. Designing modular equipment keeps it versatile and simple to install, maintain, and operate.

Partnering relationships between the CPG and the OEM can enable new developments and fits well with the TCO process. Far too many times, CPGs purchase equipment with integrated complexity, which drives up the man hours to maintain and operate the equipment. Implementing a co-development or partnership with the OEM early in the process can reduce the complexity and simplify the equipment.

WHEN PURCHASING EQUIPMENT, it is absolutely all about the acquisition and operating costs (packaging and processing equipment) and not just the price (tip of the iceberg—see illustration on Page 14). This was a unanimous perspective of the original 25-member team of consumer packaged goods (CPG) companies and original equipment manufacturers (OEM) writing and publishing the *Total Cost of Ownership Playbook and Checklist*.

This foundational document, written by industry for industry, was released May 2015 by PMMI's OpX Leadership Network. Since then, more than 5,000 indi-

viduals have downloaded the documents, and countless others have participated in conference or virtual settings to discuss and better understand total cost of ownership (TCO). What have we learned in these past five years about TCO? Three key experiences stand out:

- 1. Change is hard.** Consider the various needs of your internal stakeholders: finance, procurement, c-suite, operations, maintenance, etc. Now add your external stakeholders, namely the OEMs. It's a big task to engage all of them to embrace this new TCO

Finally, a key area for CapEx is vertical startups. TCO speaks directly and indirectly to the success of vertical startups. Organizations that choose to select equipment based solely on price generally suffer with the initial startup of the equipment. Too many of the critical components are either overlooked or forgotten until the day the equipment is expected to perform. Small, although critically important, are areas such as the FAT (factory acceptance test) process, integration of existing equipment, TT&T (technology transfer and training), and understanding of the performance in relationship to other equipment up and downstream of the new equipment. Utilizing a well-thought-out TCO document will assist with identifying the actual cost to operate the equipment as well as identifying the potential shortcoming in the vertical startup.

FSO Institute: Please describe how the updated TCO playbook and user guide can benefit Smithfield going forward?

Couch: Great question. Although most of our corporate managers utilize some level of a TCO document, the real value is at the facility level and the folks that deal with this equipment on a day-to-day basis. The maintenance and engineering staff are generally responsible for the performance and reliability state of these purchased assets. Providing them a tool that showcases the associated cost on consumables and wear parts, labor to maintain and operate, equipment life, services, and training costs allows them to make better decisions prior to the purchase. Once maintenance, engineering, and operations recognize the value of a TCO document, the quicker it will be adopted as a tool in their toolbox.

Ask any plant engineer how they would prefer to spend their time—taking a few hours to work with an OEM on the TCO document, or days upon days organizing their staff's schedule to maintain equipment, with a minimal staff. Empowering plant engineering with this TCO tool also assists in educating the financial segment of an organization that it is far better to deliver improved margins than to soften the depreciation schedule (price focused). At the end of the day, it's all about the cost, not the price.

FSO Institute: Bruce, you have long been a proponent of TCO.

Can you describe the benefit for both Barry Wehmiller and your customer relationships?

Larson: As I look back over my 25 years in the packaging industry, I spent a good portion of my time attempting to obtain information from our CPG customers related to their expectations for total cost of ownership and request for proposal. The OpX Leadership Network, comprised of about 300 CPGs and a group of OEMs, has now developed a number of critical program standards that permit open dialogue between manufacturers and OEMs. These well-thought-out templates are available and free for all of us to apply. I feel that this unique network cooperation can only serve to strengthen relationships between CPGs and OEMs.

With the foundation of all these industry best practices, we are engaging with our customers to explore new ideas on operational excellence. With TCO, we can assist the customer in looking at issues more holistically to lower their unit costs.

FSO Institute: Congratulations on taking the lead and becoming the first among the OEM community to complete several courses in the OpX One Voice Ready Certificate Program. It provides recognition for individuals and companies who embrace the OpX Leadership Network solutions. Please describe your purpose and the opportunities it presents for you and your company.

Larson: Knowing the large volume of collaborative work that went into the OpX products and understanding the positive impact it would have on our organization, I felt compelled to complete the available certifications. I must say that I was extremely impressed with the comprehensive content of the documents. My primary purpose at this point is one of OpX stakeholder awareness, internally to Barry Wehmiller, to the CPG community, and to the PMMI membership (OEMs). The early adopters to these programs will see the numerous benefits by being proactive rather than reactive.

I would hope that our sales staff would be well enough acquainted with the OpX solutions and best practices that they would be able to engage with our CPG customers and participate in constructive dialogues. I am confident that these well-thought-out exercises will produce value-added collaborations.



Just like in this iceberg image, hidden operating costs can sink you. Total cost of ownership enables gathering better data and understanding for better informed decisions.

process. Each constituent has definitive benefits culminating in driving additional value to their organizations. Just like all change management, TCO is a journey that has transformational results for the users when successfully implemented.

2. Bad decisions from bad data.

The decision-making process is only as good as the data you are given. No one has the luxury of time or budgets to revisit capital expenditure decisions. The TCO process enables an engagement opportunity to better understand the value of product decisions, whether an innovative equipment solution, or new suppliers of proven technologies, or collaborating with partners toward value engineering. All of which results in better stewardship of the company's resources.

3. TCO applications feedback.

There has been ample opportunity for feedback, and the conclusion that an update to the original TCO publication is timely. In the next few months, the new and improved TCO play-book will include:

- A user guide with examples and leadership guidance to facilitate its ease of use.
- TCO scope will be a new section that will provide guidance for conveying the context, purpose, and metrics for the equipment selection.
- A TCO workbook (in Excel) that will be much more user friendly, secure, and customizable to the company's requirements. **PFW**

About the Case in Point Series



IN THE PAST FEW YEARS, PMMI's OpX Leadership Network has produced more than 20 manufacturing process-improvement documents for CPGs and OEMs.

More recently, the FSO Institute has facilitated the adoption and implementation of these documents, especially for food and beverage manufacturers. In this 2020 Case in Point series with the FSO Institute, *ProFood World* presents actual cases to show just how CPGs are using OpX documents to improve their overall manufacturing health and their collaboration with OEMs and other suppliers. Learn more at www.opxleadershipnetwork.org and www.fsoinstitute.com.