Financial Solutions

Alternative Funding Strategies for Modernizations

Problem: **Modernizations are very important to maintaining the value and productivity of your automated material handling equipment. These projects are typically viewed as an all or nothing funding approach.**

The following are reasons that may keep a customer from seeking alternative approaches to modernizing their automated material handling equipment.

- Technology is an ever-changing factor in our world. The amazing "gadget" that is being used today will not be around forever. With this in mind, there is an unknown factor associated with the availability of technology involved in a modernization. This unknown limits a customer's idea of phasing a modernization.
- As with any company, many groups/departments are vying for precious project funds. These groups spend time putting together detailed business cases for management review and approval. When they are successful in getting the approval, there is a feeling this project must include everything they need, as they cannot go back to the management team for some undocumented period of time.
- In every project there is some level of design effort required. This phase will take into account any unique aspects of a customer's equipment and/or specifications. The design will also call out any special needs for existing equipment/systems that will remain in place after the modernization. The value of this phase can be seen as excessive for lower quantities of equipment to be modernized.

Solution: **Funding Strategies That Work**

The following describe various funding strategies that HK Systems, Inc. has proposed and/or supported to meet the unique funding challenges of some of our customers.

- Phasing a modernization is the most effective way to approach a modernization when project money is hard to come by. There are many ways to approach modernization phasing. Below is a list of phasing approaches that have worked. For each instance below, design engineering is part of the initial investment
    - Followed by the physical modernization of at least one piece of equipment, this approach will prove the upgrade solution, allows a customer to begin seeing benefits of the upgrade, as well as to fine tune the production impact for future modernizations and adjust as necessary. Benefits of this approach include:
        - Use the removed components as spares
        - Upgrades for the remaining equipment are lower cost as they do not include the burden of design engineering.
        - Slow integration of newer components which in turn allows maintenance teams to "warm up" to the technology.
        - Minimizes impact on production operations.

- Along with the procurement of all material, this approach eases the minds of those that are concerned about technology changes during a phased approach. As part of the initial investment, sufficient components for all equipment will be purchased and delivered. Benefits of this approach include:
  - Realization of all the benefits in the first scenario as well as
    - Assurance that all components will match by the time each piece of equipment is modernized.
    - Future upgrades are not subject to increases in material (such as steel content).
- Considering the design of a kit. This approach is a continuation of the first phased approach described above in that at least one piece of equipment has been modernized. During the physical installation process, the customer will dedicate resources to work with the installation team so that they can support the future modernizations themselves. Benefits of this approach include:
  - Realization of all the benefits in the first scenario as well as
    - Utilizes existing customer labor to perform all future upgrades.
    - Scheduling upgrades as it is convenient for the customer labor and budget
    - Provides a sense of ownership by the customer installation labor.

- There are also ways to defer the payment of a modernization. While this approach does introduce the cost of money, it also allows customers to pay for a modernization that fits within their company's funding constraints. Some methods for deferring payment are:
  - Spread the cost of the modernization over a period time that is probably longer than the project.
  - Request payments over two (2) fiscal years.
  - Pay at the conclusion of the project.

Links: More Supporting Information

The following links provide additional information on products and services described above:

- HK Modernization Services
- ROI Tools