

## Plant Automation

*Topic:* Capital Budgeting

*Characters:* George, a recent M.B.A. who is the only cost accountant at a manufacturing plant which is the largest employer in Cedar Valley, a town of about 20,000 people  
Arthur, the plant manager

*Arthur:* “George, come into my office for a few minutes. You know that the company brass want to increase the amount of automation in some of our factories. I just got word that this plant will be the first to be automated.”

*George:* “But the cost and accounting analyses we sent to headquarters last fall showed that it wouldn’t be profitable to make changes like that in this plant. Why did they pick this one?”

*Arthur:* “Apparently, top management wants to try robots and all the high-tech gadgets at one factory, to see if they increase product quality and pay for themselves. They think that in the long run, stockholders will benefit from automation. Anyway, the decision has been made, and it’s our job to make it work. We’re going to have to sell the work force and the community on the decision.”

*George:* “That won’t be easy. Hundreds of people are going to lose their jobs. There isn’t much else that they can do around here, either.”

*Arthur:* “Some of the factory people will be able to stay on, if they get some additional training. We can convince the workers and the people in town that the decision was necessary, if we can show them accounting and cost information to justify the decision. If they see good, sound reasoning for the action, they’ll be less likely to resist and cause trouble. We need for them to maintain productivity and efficiency until the new equipment is here. I want you to work on a cost summary we can release to the employees and the town newspaper, showing why automation is a good idea.”

*George:* “But the net present value and other analyses I did earlier showed this plant should stay the way it is.”

*Arthur:* “When we were working on the analyses, you said yourself that the benefits of automation are hard to identify and assign numbers to. You had to make several assumptions in order to do those analyses. If you change some of your assumptions, you can make the numbers look better. Try a longer useful life for the new equipment, or change some of the projected cost information. As soon as you have the new numbers, bring them to me to look at.”

*Author:* Sue Atkinson, Assistant Professor, Tarleton State University