For safety directors trying to justify expenditures in safety equipment.

Keeping people safe, reducing accidents, reducing damage, reducing downtime, reducing accidents obviously will save any company money. You will not get any argument from management, unions or employees about this. However, additional investments in safety must be justified like any investment that a company makes be it production machinery, facility improvements, material handling equipment, office equipment, etc. So safety managers must win support for the financial investment in a safety program and must provide management tangible proof of the economic gains the company accrues when it invests in safety equipment and programs. This can be done with very simple formulas that document the real financial costs companies incur from injuries and worker’s compensation cases.

However, showing the actual costs of the accident is one thing, but to make your safety investment argument even more persuasive to managers of a budget a safety manager needs to show how accident costs affect the company’s profitability and how much additional sales must be made—just to pay for the cost of an accident. This is what surprises most managers.

Many do not realize that indirect costs are usually much greater than the direct costs.

More obvious indirect costs to consider include:
• Time lost from work by injured employee(s).
• Loss in earning power • Economic loss to injured worker’s family.
• Lost time by supervision • Paperwork • Administrative time
• Damage to tools, equipment, and other property.
• Time lost for replacing damaged equipment.
• Loss of production • Failure to fill orders.
• Spoilage - fire, water, chemical, explosives, etc. • Spoiled work.
• Overhead cost (while work was disrupted).
• Legal issues
• Medical expenses

Examples of less obvious hidden costs:
• Production loss/worker distraction
• Training costs/replacement worker
• Loss of skill/efficiency - slowed production
• Increase in Workers compensation premium
• Cost of training a new worker.
• Lost time by fellow employees • Loss of morale
• Loss of efficiency due to break-up of crew.
The real costs of accidents and worker’s compensation cases is often a very grey area and is generally hidden in company budgets and is quite hard to visualize and monitor. So a safety director who can clearly demonstrate the true costs of an injury have a much better chance of convincing management of the need for safety equipment and training investments. There is a very big difference between simply saying “safety saves us money” and actually documenting the indisputable costs of an accident.

Calculating the true cost of an accident and sales needed to recoup

A safety manager can quickly calculate accident costs and their detrimental affect on profitability and most importantly—how much additional sales the company must make just to compensate for this accident

1: DIRECT COST of the accident
The total insurance claim (medical and indemnity payments)
$_________ Add cost figure here  EXAMPLE: $30,000 (used for this example)

2: INDIRECT COST of the accident
MULTIPLY direct cost by a cost multiplier. The multiplier you use depends upon the size of the financial cost of the accident.
Indirect costs are to cover administrative costs, legal costs, replacement costs, downtime, loss of production, management effort, etc. This is a “guestimate” and, of course, can vary somewhat widely from case to case. Typically, larger cost accidents will have a smaller multiplier because of the higher direct cost of the original accident.

If DIRECT cost of accident is:
$0---$3000  Use: 4.5 multiplier
$3001---$5000  Use: 1.6 multiplier
$5001---$10,000  Use: 1.2 multiplier
$10,001---more  Use: 1.1 multiplier
$_________ Add accident cost figure here  EXAMPLE: $33,000 ($30,000 X 1.1)

3: TOTAL COST of the accident
ADD: DIRECT COST + INDIRECT COST = TOTAL COST
$_________ Add total cost figure here  EXAMPLE: $63,000 ($30,000+ $33,000)

4: IMPACT ON PROFITABILITY of the accident
To determine this, use your company’s profit margin to determine the additional sales your company must make—just to pay for this accident.

DIVIDE TOTAL PROFITS / TOTAL COMPANY SALES = PROFIT MARGIN
__________ Add profit margin figure
here  EXAMPLE: 12% ($12,000,000/$100,000,000)
5: ADDITIONAL SALES COMPANY NEEDS TO MAKE---- JUST to pay for the accident
To determine this, use your company’s profit margin to determine the additional
sales your company must make----just to pay for this accident.

DIVIDE TOTAL COST OF ACCIDENT / COMPANY PROFIT MARGIN = ADDITIONAL
SALES NECESSARY JUST TO PAY FOR THIS ACCIDENT

$___________ Add additional sales required figure
here EXAMPLE: $525,000 ($63,000 total cost of accident / 12% profit margin)

In this example above, this is a very large company with a 12% profit margin and
$100,000,000 in annual sales. One $30,000 accident (base cost) actually requires them to
sell $525,000 MORE PRODUCT ---just to cover the cost of this accident. This buys A
LOT of safety equipment and if a company is “accident prone”---very easy to justify.
Using this simple formula above can be very compelling to managers considering safety
equipment who are trying to justify safety expenditures for devices like those produced
by KEYTROLLER ----- to insure only authorized and trained operators start their
equipment, that abusive operators are accountable for damage and that safety checklists
are performed before using the equipment each shift. KEYTROLLER also offers an
Excel spreadsheet that allow forklift fleet users to use their own damage and productivity
numbers to evaluate an ROI for
KEYTROLLER access monitoring devices.
KEYTROLLER offers a wide variety of
forklift safety and monitoring devices
including:

- Access Monitoring Devices
- DVR Camera Recorders
- Wireless Viewing Cameras
- Top Speed Controllers
- Zone Speed Controllers
- High Accuracy Weigh Scales
- Electronic Checklist Devices
- Impact Monitoring Devices
- Transmission Abuse Inhibitors
- Wireless Hour / Location Meters
- Pedestrian Safety Devices
- Always Used Seat Belts

The company is not affiliated with any OEM
manufacturer and offers free demos of its
products that are available from better
forklift and equipment dealers worldwide.

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