



EVALUATING Ai INVESTMENTS

Using The PRIME Method™



Part of Our R.O.I. For Ai Series

BLAZING
ACADEMY

Introduction

▶ BEYOND THE AI HYPE

Artificial Intelligence (AI) has captured the imagination of business leaders worldwide, promising revolutionary changes across nearly every industry. However, **amidst the excitement and bold claims, it's crucial to ground AI investments in solid financial reasoning.** This e-book introduces the PRIME Method™, a practical approach to evaluating AI investments based on tangible productivity gains and cost savings.

In today's rapidly evolving business landscape, looking past the hype and focusing on proven ROI methods is more important than ever. The PRIME Method offers a structured, versatile approach to assess AI's potential impact on your organization, whether through office productivity improvements or manufacturing efficiency gains.

▶ HOW TO MAKE A REALISTIC PICTURE: THE IMPORTANCE OF MULTIPLE SCENARIOS

When evaluating AI investments, it's vital to consider multiple scenarios. This approach allows you to:

- Bracket the potential impact realistically
- Account for varying degrees of success in implementation
- Prepare for both conservative and optimistic outcomes
- Make more informed decisions based on a range of possibilities

The PRIME Method incorporates this multi-scenario thinking, helping you build a more robust and defensible business case for AI adoption.



The PRIME Method

▶ WHAT DOES PRIME STAND FOR?

Introducing the PRIME Method, a streamlined and defensible approach for corporations investing in Ai. This method simplifies Ai integration and empowers you to confidently estimate ROI and to achieve optimal results for your organization. Here's how it works at a glance:



▶ What is the PRIME Method?

A structured approach to evaluating Ai investments focusing on productivity gains and cost savings.

▶ Why should I consider multiple scenarios?

It helps in making informed decisions by preparing for varying degrees of success in Ai implementation.

▶ How does Ai impact labor costs?

Ai can enhance productivity, leading to labor cost savings by automating tasks and improving efficiency.



The 6 PRIME Method Steps

▶ Step 1: Prepare Your Data

- Count your total number of employees
- Calculate your average annual salary per employee, or total labor cost
- Estimate your total Ai investment (including software, training, and consulting)
- Determine your workforce participation rate for Ai impact

▶ Step 2: Run the Basic Calculations

- Total Labor Cost = Number of employees × Average annual salary
- Ai Investment Percentage = (Ai Investment / Total Labor Cost) × 100
- Ai-Impacted Labor Cost = Total Labor Cost × Participation Rate

▶ Step 3: Identify Productivity Scenarios

Define three productivity gain scenarios:

- Conservative: 5% gain
- Moderate: 10% gain
- Optimistic: 15% gain

▶ Step 4: Measure the Impact

For each scenario, calculate:

- Labor Cost Savings = Ai-Impacted Labor Cost × Productivity Gain percentage
- ROI = (Labor Cost Savings - Ai Investment) / Ai Investment
- ROI Percentage = ROI × 100

▶ Step 5: Evaluate the Results

- Create a summary table of your scenarios
- Calculate your break-even point (Break-even productivity gain = Ai Investment / Ai-Impacted Labor Cost)

▶ Step 6: Consider Additional Benefits

- Improved decision-making
- Reduced errors
- Enhanced customer satisfaction



Business Case Study

Let's apply the PRIME Method to a hypothetical company:

Step 1: Prepare Your Data

- Total Team Size: 200 employees
- Average Salary: \$60,000/year
- Ai Investment: \$60,000 (e.g., \$5,000/month for 12 months)
- Participation Rate: 70% (assuming 30% of workers are not directly impacted by Ai implementation)

Step 2: Run the Basic Calculations

- Total Labor Cost: $200 \times \$60,000 = \$12,000,000$
- Ai Investment Percentage: $(\$60,000 / \$12,000,000) \times 100 = 0.5\%$
- Ai-Impacted Labor Cost: $\$12,000,000 \times 0.7 = \$8,400,000$

Step 3: Identify Productivity Scenarios

- Conservative: 5%
- Moderate: 10%
- Optimistic: 15%

Step 4: Measure the Impact

Scenario	Labor Cost Savings	ROI	ROI Percentage
<u>Conservative</u> :	\$420,000	6	600%
<u>Moderate</u> :	\$840,000	13	1300%
<u>Optimistic</u> :	\$1,260,000	20	2000%

Step 5: Evaluate the Results

- Even the conservative scenario shows a significant 600% ROI
- Break-even point is 0.71% productivity gain
(60,000 / 8,400,000)

Break-even reduction = Ai Investment / Annual Downtime Cost



Manufacturing Case Study

Let's apply the PRIME Method to a hypothetical manufacturing plant:

▶ Step 1: Prepare Your Data

- Average downtime: 20 hours per month
- Cost per hour of downtime: \$5,000
- AI Investment for Downtime Reduction: \$100,000

▶ Step 2: Run the Basic Calculations

- Monthly Downtime Cost: $20 \times \$5,000 = \$100,000$
- Annual Downtime Cost: $\$100,000 \times 12 = \$1,200,000$

▶ Step 3: Identify Productivity Scenarios

- Conservative: 10% reduction
- Moderate: 20% reduction
- Optimistic: 30% reduction

▶ Step 4: Measure the Impact (Calculate Savings and ROI)

Scenario	Annual Savings	ROI	ROI Percentage
<u>Conservative</u> :	\$120,000	0.2	20%
<u>Moderate</u> :	\$240,000	1.4	140%
<u>Optimistic</u> :	\$360,000	2.6	260%

▶ Step 5: Evaluate the Results

- Moderate and optimistic scenarios show positive ROI
- Break-even point is 8.33% downtime reduction ($100,000 / 1,200,000$)

Break-even reduction = AI Investment / Annual Downtime Cost



Conclusion

▶ Leveraging the PRIME Method

The PRIME Method offers a structured approach to evaluating Ai investments, focusing on tangible productivity gains and cost savings. By considering multiple scenarios and adapting the model to different business contexts, you can build a comprehensive and realistic case for Ai adoption in your organization.

Remember, while the PRIME Method provides valuable insights, it's just the beginning of your Ai journey. The true value of Ai lies in its implementation and integration into your business processes.

▶ Ready to turn these ROI scenarios into reality for your organization?

Our team of Ai professionals is here to help. We can guide you through the process of applying the PRIME Method to your specific business context and develop a tailored Ai strategy that drives real results.

Contact us today to explore how we can help you realize the full potential of Ai in your organization. Let's move beyond the hype and create tangible value together.

Email info@blaizing.org or call 855-925-1150



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