Factory Operations Models

Simplified for purposes of conceptualization:

- Total number of product units $Q_f = PQ$
- Total number of parts produced

$$n_{pf} = PQn_p$$

- Total number of operations $n_{of} = PQn_pn_o$

Problem 1

- The ABC Company is planning a new product line and will build a new plant to manufacture the parts for a new product line. The product line will include 50 different models. Annual production of each model is expected to be 1000 units. Each product will be assembled of 400 components. All processing of parts will be accomplished in one factory. There are an average of 6 processing steps required to produce each component, and each processing step takes 1.0 minute (includes an allowance for setup time and part handling). All processing operations are performed at workstations, each of which includes a production machine and a human worker. If each workstation requires a floor space of 250 ft^2, and the factory operates one shift (2000 hr/yr), determine (a) how many production operations, (b) how much floor-space, and (c) how many workers will be required in the plant.

Solution

(a) $n_{of} = PQn_pn_o$ = 50(1000)(400)(6) = **120,000,000 operations** in the factory per year.

(c) Total operation time = (120 x 10^6 ops)(1min./(60 min./hr)) = 2,000,000 hr/yr.

At 2000 hours/yr per worker, $w = \frac{2,000,000 \text{hr / yr}}{2000 \text{hr / worker}}$

= **1000 workers**.

(b) Number of workstations $n = w$ = 1000. Total floor-space = (1000 stations)(250 ft^2/station) = **250,000 ft^2**

2. Manufacturing Models (Mathematical) and Metrics

Models Include

1. Mathematical Models of Production Performance
2. Manufacturing Costs

Production Concepts and Mathematical Models

- Production rate R_p
- Production capacity *PC*
- Utilization *U*
- Availability *A*
- Manufacturing lead time *MLT*
- Work-in-progress *WIP*

Operation Cycle Time

Typical **cycle time** for a production operation:

$$T_c = T_o + T_h + T_{th}$$

where T_c = cycle time, T_o = processing time for the operation, T_h = handling time (e.g., loading and unloading the production machine), and T_{th} = tool handling time (e.g., time to change tools)

Production Rate

Batch production: batch time $T_b = T_{su} + QT_c$

Average production time per work unit $T_p = T_b/Q$

Production rate $R_p = 1/T_p$

Job shop production:

For $Q = 1$, $T_p = T_{su} + T_c$

For **quantity high production**:

$R_p = R_c = 60/T_p$ since $T_{su}/Q \rightarrow 0$

For flow line production

$T_c = T_r + \text{Max } T_o$ and $R_c = 60/T_c$

Production Capacity

Plant capacity for facility in which parts are made in one operation ($n_o = 1$):

$$PC_w = n\, S_w\, H_s\, R_p$$

where PC_w = weekly plant capacity, units/wk

Plant capacity for facility in which parts require multiple operations ($n_o > 1$):

$$PC_w = \frac{n S_w H_s R_p}{n_o}$$

where n_o = number of operations in the routing

Utilization & Availability

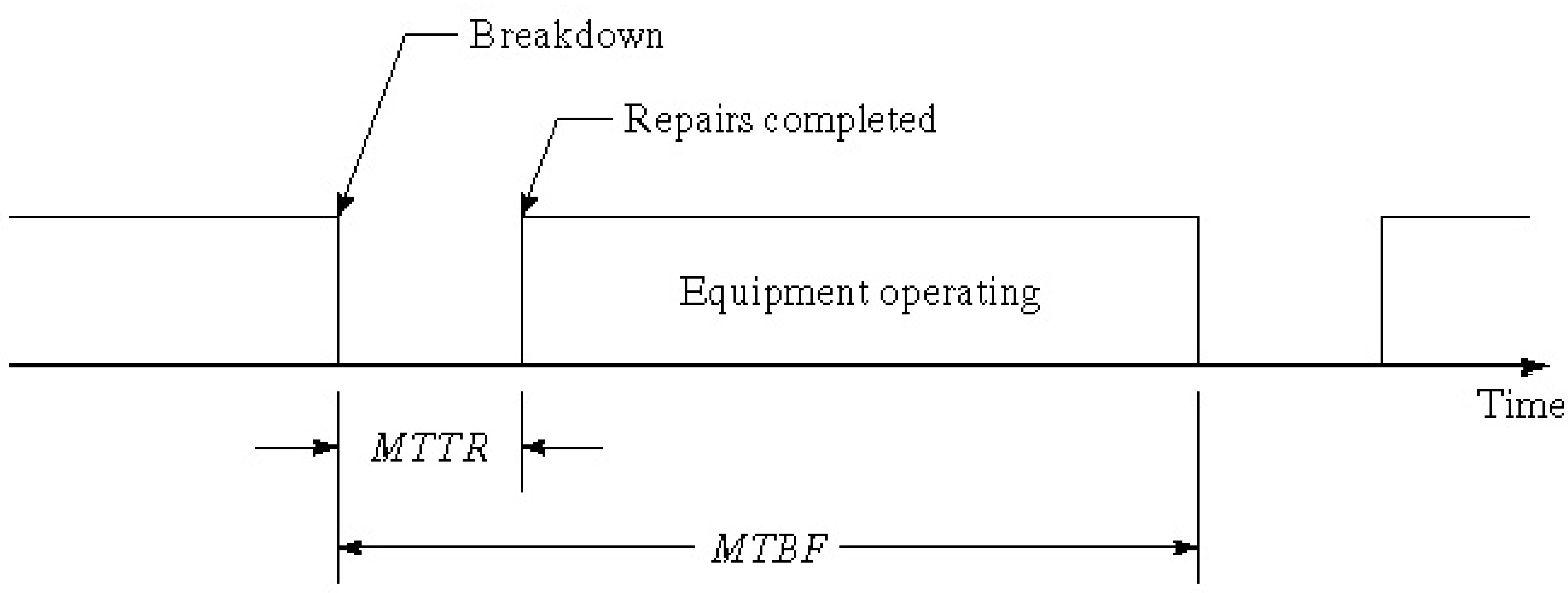
Utilization: $U = \frac{Q}{PC}$

where Q = quantity actually produced, and PC = plant capacity

Availability: $A = \frac{MTBF - MTTR}{MTBF}$

where *MTBF* = mean time between failures, and *MTTR* = mean time to repair

Availability -
MTBF and MTTR Defined



Manufacturing Lead Time

$$MLT = n_o (T_{su} + QT_c + T_{no})$$

where MLT = manufacturing lead time, n_o = number of operations, T_{su} = setup time, Q = batch quantity, T_c cycle time per part, and T_{no} = non-operation time

Work In Process

$$WIP = \frac{AU(PC)(MLT)}{S_w H_{sh}}$$

where WIP = work-in-process, pc; A = availability, U = utilization, PC = plant capacity, pc/wk; MLT = manufacturing lead time, hr; S_w = shifts per week, H_{sh} = hours per shift, hr/shift

Problem 2

The average part produced in a certain batch manufacturing plant must be processed sequentially through six machines on average. Twenty (20) new batches of parts are launched each week. Average operation time = 6 min., average setup time = 5 hours, average batch size = 25 parts, and average non-operation time per batch = 10 hr/machine. There are 18 machines in the plant working in parallel. Each of the machines can be set up for any type of job processed in the plant. The plant operates an average of 70 production hours per week. Scrap rate is negligible.

Determine (a) manufacturing lead time for an average part,

(b) plant capacity, (c) plant utilization. (d) How would you expect the non-operation time to be affected by the plant utilization?

Solution

(a) $MLT = n_o (T_{su} + QT_c + T_{no})$

MLT = 6(5 + 25(0.1) + 10) = **105 hr**

(b) $T_b = T_{su} + QT_c$

T_p = (5 + 25 x 0.1)/25 = 0.30 hr/pc, R_p = 3.333 pc/hr.

$$PC_w = \frac{nS_wH_sR_p}{n_o}$$

PC = 70(18)(3.333)/6 = **700 pc/week**

(c) Parts launched per week = 20 x 25 = 500 pc/week.

$$U = \frac{Q}{PC}$$

Utilization U = 500/700 = 0.7143 = **71.43%**

(d) As utilization increases towards 100%, we would expect the non-operation time to increase. When the workload in the shop grows, the shop becomes busier, but it usually takes longer to get the jobs out. As utilization decreases, we would expect the non-operation time to decrease

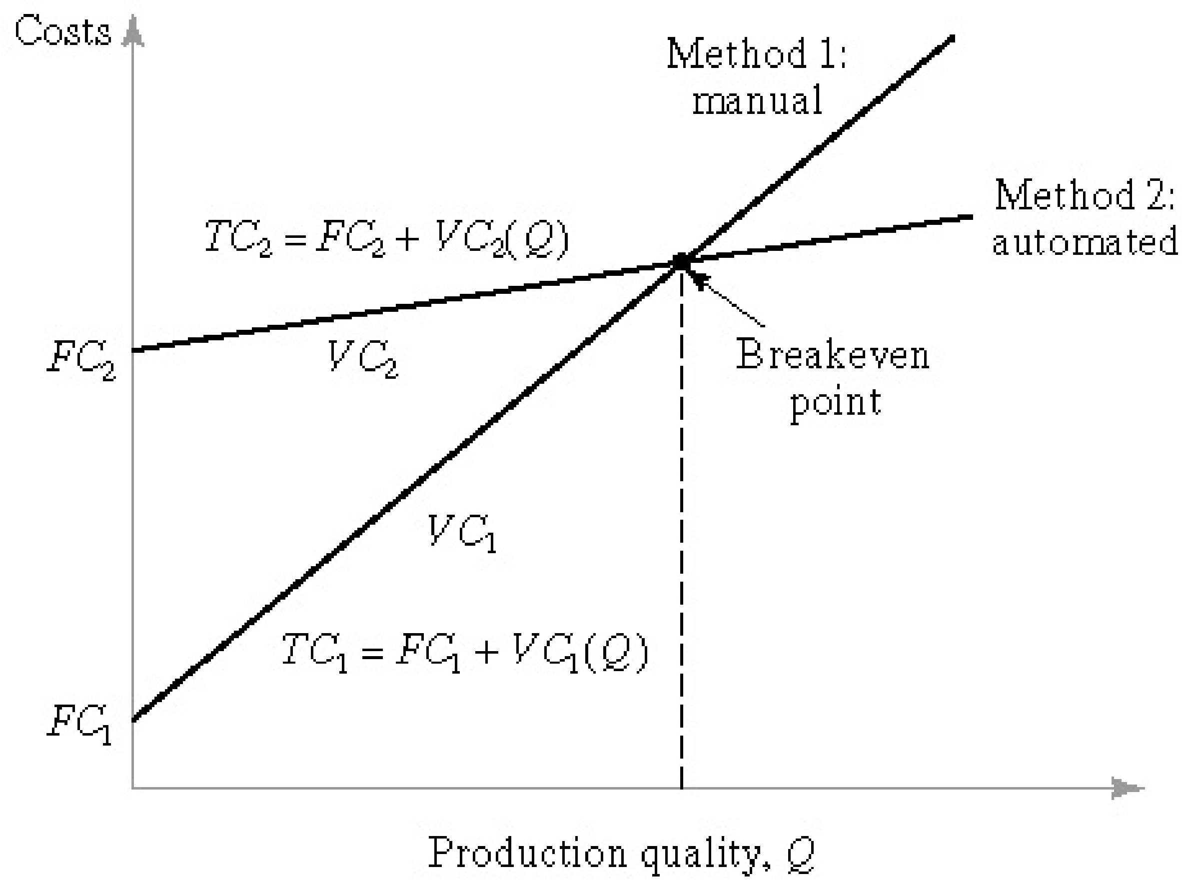
Costs of Manufacturing Operations

- Two major categories of manufacturing costs:
  1. **Fixed costs** - remain constant for any output level
  2. **Variable costs** - vary in proportion to production output level
- Adding fixed and variable costs

$$TC = FC + VC\,(Q)$$

where TC = total costs, FC = fixed costs (e.g., building, equipment, taxes), VC = variable costs (e.g., labor, materials, utilities), Q = output level.

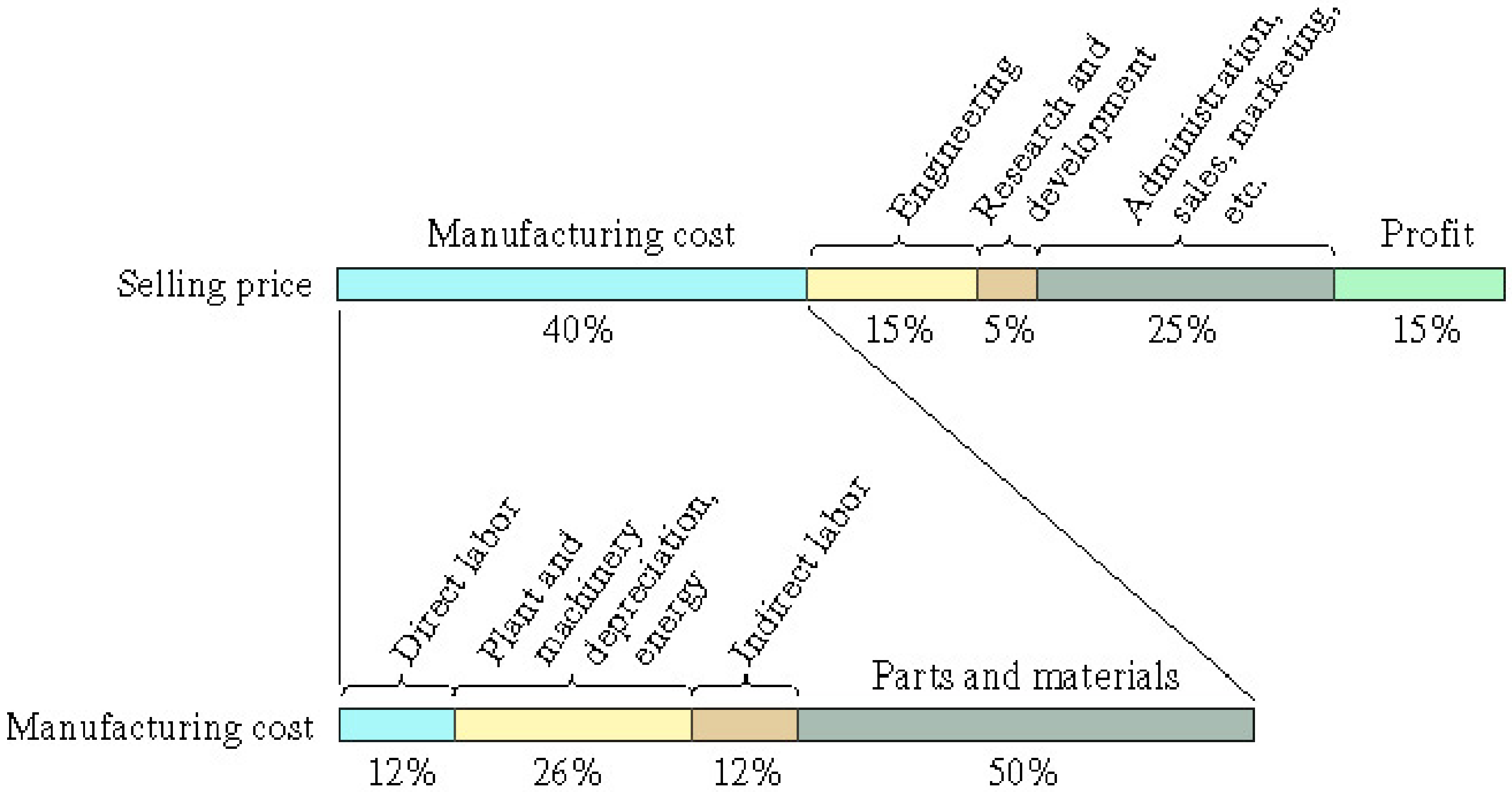
Fixed & Variable Costs



Manufacturing Costs

- Alternative classification of manufacturing costs:
  1. **Direct labor** - wages and benefits paid to workers
  2. **Materials** - costs of raw materials
  3. **Overhead** - all of the other expenses associated with running the manufacturing firm
     - Factory overhead
     - Corporate overhead

Typical manufacturing Cost



Factory Overheads

Factory overhead rate:

$$FOHR = \frac{FOHC}{DLC}$$

Corporate overhead rate:

$$COHR = \frac{COHC}{DLC}$$

where *DLC* = direct labor costs

Problem 3 Determining Overhead Rate

Suppose that all costs have been compiled for a certain manufacturing firm for last year. The summary is shown in the table below. The company operates two different manufacturing plants plus a corporate headquarters. Determine: (a) the factory overhead rate for each plant and (b) the corporate overhead rate. These rates will be used by the firm in the following year.

Expense Category	Plant 1 ($)	Plant 2 ($)	Corporate Headquarters (#)	Totals ($)
Direct labor	800,000	400,000		1,200,000
Materials	2,500,000	1,500,000		4,000,000
Factory expense	2,000,000	1,100,000		3,100,000
Corporate expense			7,200,000	7,200,000
Totals	5,300,000	3,000,000	3,000,000	15,500,000

Problem 3 Solution

(a) A separate factory overhead rate must be determined for each plant. For plant 1, we have:

$$FOHR_1 = \frac{\$2,000,000}{\$800,000} = 2.5 = 250\%$$

For plant 2,

$$FOHR_2 = \frac{\$1,100,000}{\$400,000} = 2.75 = 275\%$$

(b) The corporate overhead rate is based on the total labor cost at both plants.

$$COHR = \frac{\$7,200,000}{\$1,200,000} = 6.0 = 600\%$$

Problem 4 Establish Selling Price

A customer order of 50 parts is to be processed through plant 1 of the previous example. Raw materials and tooling are supplied by the customer. The total time for processing the parts (including setup and other direct labor) is 100 hr. Direct labor cost is $10.00/hr. The factory overhead rate is 250% and the corporate overhead rate is 600%. Compute the cost of the job.

Solution: (a) The direct labor cost for the job is (100 hr)($10.00/hr) = $1000.
(b) The allocated factory overhead charge, at 250% of direct labor, is ($1000)(2.50) = $2500.
(c) The allocated corporate overhead charge, at 600% of direct labor, is ($1000)(6.00) = $6000.

Interpretation: (a) The direct labor cost of the job, representing actual cash spent on the customer's order = $1000. (b) The total factory cost of the job, including allocated factory overhead = $1000 + $2500 = $3500. (c) The total cost of the job including corporate overhead = $3500 + $6000 = $9500. To price the job for the customer and to earn a profit over the long run on jobs like this, the price would have to be greater than $9500. For example, if the company uses a 10% mark-up, the price quoted to the customer would be (1.10)($9500) = $10,450.

Cost of Equipment Usage

Hourly cost of worker-machine system:

$$C_o = C_L(1 + FOHR_L) + C_m(1 + FOHR_m)$$

where C_o = hourly rate, \$/hr; C_L = labor rate, \$/hr; $FOHR_L$ = labor factory overhead rate, C_m = machine rate, \$/hr; $FOHR_m$ = machine factory overhead rate

Problem 5 Hourly Cost of Work Center

The following data are given: direct labor rate = \$10.00/hr; applicable factory overhead rate on labor = 60%; capital investment in machine = \$100,000; service life of the machine = 8 yr; rate of return = 20%; salvage value in 8 yr = 0; and applicable factory overhead rate on machine = 50%. The work center will be operated one 8-hr shift, 250 day/yr. Determine the appropriate hourly rate for the work center.

Labor cost per hour $= C_L(1 + \text{FOHR}_L) = \$10.00(1 + 0.60) = \$16.00/\text{hr}$. The investment cost of the machine must be annualized, using an 8-yr service life and a rate of return = 20%. First we compute the capital recovery factor:

$$(A/P, 20\%, 8) = \frac{0.20(1 + 0.20)^8}{(1 + 0.20)^8 - 1} = \frac{0.20(4.2998)}{4.2998 - 1} = 0.2606$$

Now the uniform annual cost for the \$100,000 initial cost can be determined:

$$\text{UAC} = \$100{,}000(A/P, 20\%, 8) = 100{,}000(0.2606) - \$26{,}060.00/\text{yr}$$

The number of hours per year = (8 hr/day)(250 day/yr) = 2000 hr/yr. Dividing this into UAC gives 26,060/2000 = \$13.03/hr. Then applying the factory overhead rate, we have

$$C_m(1 + \text{FOHR}_m) = \$13.03(1 + 0.50) = \$19.55/\text{hr}$$

Total cost rate is

$$C_o = 16.00 + 19.55 = \$35.55/\text{hr}.$$

Solve problems for better understanding of the basics of Manufacturing System

For specific problems TA will help

Assignment 1

Problem	Group
2, 3	1
4,22	2
5,21	3
7,8,20	4
9,19	5
10, 11,18	6
13, 17	7