The Production Department schedules the number of products your company will manufacture in the upcoming year. It starts with the Marketing forecast...

From here it subtracts any inventory from last year…entering the difference into the production schedule.

The *production after adjustment* cell displays the true output of your production line, and it's almost always less than the schedule. The adjustments are driven in part by your Accounts Payable policy because the longer you take to pay for your material, the longer your suppliers take to deliver.

Each production line has a capacity. This is the number of units that can be manufactured in one year using a single eight hour shift.

You can produce up to twice that amount by running a second shift. **Under the rules we pay second shift a 50 percent premium.**

You can also buy and sell capacity. New capacity is paid for this year, but will not be available until next year.

When capacity is sold, the equipment is removed right away and money from the sale is available right away.

Production at this point will be limited to the remaining capacity.

The spreadsheet displays how much money is raised through the sale of excess capacity, or how much you will need to purchase additional capacity.

Selling all of a line's capacity discontinues the product; this should not be taken lightly. Production definitely needs to discuss this with the other departments.

Any remaining inventory is sold to scrappers at 50% of the cost of production.

IF you want to sell the inventory at full market price, just sell off all but one unit of capacity which signals you are staying in the market this year only.

Companies can increase the automation on a production line. Automation reduces the per unit labor cost, but as attractive as this sounds, two factors should be considered….

One. Automation is expensive. The spreadsheet will tell you the cost.

Two. High automation increases the time required for R&D to reposition a product. This is because more machines have to be retooled to build the new product.

Changes in Automation take a full year to complete.

Unlike reducing capacity, which raises cash, reducing automation requires a retooling cost. It doesn't make sense to pay money to make your production line less efficient.

Capacity and automation purchases have a ceiling. Each year, the capital budget limit will tell you how much you can spend.

Production should always align its capacity levels with Marketing's forecasts. And it must notify Finance if it decides to purchase capacity and automation.
<pause>

Good Luck!