A Basic Economic Model for Judging Production Development

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A BASIC ECONOMIC MODEL FOR JUDGING PRODUCTION DEVELOPMENT

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The described technical-economic model clarifies the influence of different production technological factors on the processing cost of a part. The model represents the fundamental theory for the judging of different types of production development. Various influential factors can be weighted against each other, which leads to different production development scenarios and their effects on the processing cost can be studied. This implies a way to generate a basis of decision by which a company can base their production related development goals. The model describes technical factors influence on the manufacturing cost and represents by that the important link between technical development and economy.

Keywords: manufacturing economy, manufacturing analyses, deterministic production development, cost derivatives

1. INTRODUCTION

A majority of all the manufacturing companies are working with production development and improvements to meet the competition from low-wage countries in for example Asia. There are a number of methods and philosophies for working with continuous improvements, where the success of lean production (Womack et al., 1990), is the most widely spread. An important question is if considerations and decisions made regarding investments and development actions are based on correct and adequate knowledge in order to achieve the highest efficiency benefits.

The outsourcing decision has been going on for some time now (Berggren et al., 2005), (Larsson and Malmqvist, 2002). Decisions made about moving production-units to low-wage countries are often based on limited information, giving wages to big influence over the decisions. Existing economic models are inadequate in utilizing estimation of the development potential of a production system and possible development actions.

There are many questions to be asked when considering major improvement changes in a production facility. The most common questions the company management would like to have answered are:

- How much better do we have to be to compete with for example low-wage countries and what and where in the production facility do we have to improve?
- What changes and what research and development actions will give the company the best long term competitive strength?
- What are the bases of decision required to formulate goal functions for production development, and what are reasonable goal functions for the actual production system?

The economic model presented in this article can give answers to some of these questions, if the required data is known.

2. GOALS AND LIMITATIONS

The economic model presented is defined to comprise the direct production cost. The overhead costs are excluded at this level, because they have little to do with developing the production system. Factors tied to the income side of the production are not considered in the model. The model primarily describes batch production with the nominal batch size \( N_0 \). The model is summarized to describe one processing step or a so-called planning point. (a planning...
point is a set of machines and robots where the cycle time is determined by the slowest machine in the line). This simplification enhances the principle of comparing the influence of different cost items on the total production cost. These factors influence on the production cost can therefore constitute the foundation for choosing research and development actions.

The parameters in the model are adjusted to the results from a Systematic Production Analysis (SPA) (Ståhl, 2007), during which the downtime rate, scrap rate and production rate are measured for each processing unit involved in the manufacturing of a specific product. The possible downtime, scrapped parts and loss in production rate are related to a factor found in one of the following factor groups:

A: Tool and tooling system  
B: Work piece material  
C: Manufacturing process and process data  
D: Personnel, organization and outer logistics  
E: Maintenance and wear tied to A, C, D and G  
F: Special process behavior/factors  
G: Surrounding equipment and inner logistics  
H: Unknown or unspecified factors

### 3. LIST OF SYMBOLS

The index of the parameters in the list of symbols are partly tied to the factor groups described above.

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Description</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(t_0)</td>
<td>Nominal cycle time per part</td>
<td>min</td>
</tr>
<tr>
<td>(t_m)</td>
<td>Machine time</td>
<td>min</td>
</tr>
<tr>
<td>(t_h)</td>
<td>Handling time</td>
<td>min</td>
</tr>
<tr>
<td>(t_s)</td>
<td>Tool switch time</td>
<td>min</td>
</tr>
<tr>
<td>(t_p)</td>
<td>Production time per part</td>
<td>min</td>
</tr>
<tr>
<td>(t_{dp})</td>
<td>Average down time per part</td>
<td>min</td>
</tr>
<tr>
<td>(t_{dp})</td>
<td>Production time per part for one batch with (N_0) parts</td>
<td>min</td>
</tr>
<tr>
<td>(q_S)</td>
<td>Down time rate</td>
<td>-</td>
</tr>
<tr>
<td>(q_D)</td>
<td>Scrap rate</td>
<td>-</td>
</tr>
<tr>
<td>(\Delta q_{t})</td>
<td>Limited change in down time losses</td>
<td>-</td>
</tr>
<tr>
<td>(q_{ins})</td>
<td>Disturbance rate during set up</td>
<td>-</td>
</tr>
<tr>
<td>(N)</td>
<td>Total amount of required parts to be able to produce (N_0) parts</td>
<td>unit</td>
</tr>
<tr>
<td>(N_0)</td>
<td>Nominal batch size</td>
<td>unit</td>
</tr>
<tr>
<td>(N_Q)</td>
<td>Amount of scrap parts in a batch of (N_0) parts</td>
<td>unit</td>
</tr>
<tr>
<td>(N_{av})</td>
<td>Average batch size</td>
<td>unit</td>
</tr>
<tr>
<td>(n)</td>
<td>Rational number &gt; 0</td>
<td>-</td>
</tr>
<tr>
<td>(T_p)</td>
<td>Production time for one batch</td>
<td>min</td>
</tr>
<tr>
<td>(T_{sw})</td>
<td>Set up time</td>
<td>min</td>
</tr>
<tr>
<td>(\partial z)</td>
<td>Partial change in arbitrary variable</td>
<td>-</td>
</tr>
<tr>
<td>(\Delta z)</td>
<td>Change in arbitrary variable</td>
<td>-</td>
</tr>
<tr>
<td>(x_p)</td>
<td>Process development factor for the cycle time</td>
<td>-</td>
</tr>
<tr>
<td>(x_{sw})</td>
<td>Process development factor for set up time</td>
<td>-</td>
</tr>
<tr>
<td>(\Delta x_p)</td>
<td>Limited change in process development factor for cycle time</td>
<td>-</td>
</tr>
<tr>
<td>(k_i)</td>
<td>Part cost of manufacturing case i</td>
<td>Sw.c./unit</td>
</tr>
<tr>
<td>(k_S)</td>
<td>Material cost per part</td>
<td>Sw.c./unit</td>
</tr>
<tr>
<td>(k_{CP})</td>
<td>Hourly cost of machines during production</td>
<td>Sw.c./h</td>
</tr>
</tbody>
</table>

### 4. LITERATURE REVIEW

Several different models have been developed for the purpose of calculating the manufacturing cost. According to Tipnis, et al. (1981), the models can be devied in microeconomic and macroeconomic models. In the microeconomic models specific process parameters influence on the part cost is described. Microeconomic models dealing with machining has been described by Colding (1978, 2003) and Alberti, et al. (1985) among others and Knight, et al. (1982) has developed a corresponding model for forging. Within the field of machining a microeconomic model can describe how for example the cutting rate, feed or working margin influence the part cost. In a macroeconomic model several parameters are aggregated. An example of a macroeconomic model is when the cost calculations are based on the cycle time and not the factors that influence the cycle time. The fundamental principles for developing macroeconomic models are described by the economists Kaplan and Anderson (2007). The authors have not developed any models that are directly applicable to calculate the part cost but leaving these activities to the reader.

Macroeconomic models have previously been illustrated by Groover (1987). In this model only one production loss parameter is taken into consideration; the scrap rate. Ravignani and Semeraro (1980) has developed a model that combines the micro- and macroeconomic views by noticing both cutting tecnological conditions and the batch size. Any production loss parameters is not regarded. It can be stated that the microeconomic models are specific for different processing methods. A numerous models has been developed to describe the cutting cost of machining. The models are describing the connection between the cutting rate, the wear rate of a cutting tool and the tool switch time. Preferably you separate maximum production rate and minimum production cost. In these models the tool cost is highly prioritized. Cost for down time and the scrap rate is not taken into consideration.

A cost model for assembly is introduced by Teng and Garimella (1998). This model is based on inventory costs, assembly costs and costs associated with diagnostic and rework activities. The model has a high resolution concerning cost for differnt types of equipment in the assembly line. The model is based on average cycle times where also the scrap rate is
considered. Boothroyd (1984) is describing a specific cost model for robot assembly which is noticing the down time costs in the assembly line.

Production cost regarding design has been discussed by Locascio (2000), Liebers and Kals (1997) and Shehab and Abdalla (2001). Locascio is assuming that all cycle times of the processing steps is known in advanced. Any specific connection to production loss parameters is not considered. Shehab and Abdalla is describing an interesting model that estimate the manufacturing cost for machining for different choises of material where both the material cost and the precessing cost is taken into consideration.

The model to be descibed below is general and can regarded as a macroeconomic model but with the possibility to consider the microeconomic parameters. The model is intended to describe the part cost of various specific or aggregated processing methods without any major modifications.

5. MODELLING OF THE PART COST

The nominal processing time (cycle time) $t_0$ for a part is comprised of machine time, handling time and tool change time:

$$t_0 = t_m + t_h + t_{ch}$$

(1)

The equation assumes that the events are performed in a sequential order and can be considered as a planning point. The real processing time $t_p$ will be longer than the nominal time due to disturbances and downtime. The rate of the disturbance and downtime can be expressed as the quotient between the downtime $t_S$ and the observed production time $t_p$ described in equation 2. The sum of the downtime and nominal processing time gives the real processing time $t_p$ according to equation 3.

Combining equation 2 and 3 the processing time can be determined based on the nominal cycle time and the downtime rate $q_S$:

$$q_S = \frac{t_S}{t_p} = \frac{t_p - t_0}{t_p}$$

$$t_p = \frac{t_0}{1 - q_S} = t_0(1 + \frac{q_S}{1 - q_S})$$

$$t_S = \frac{t_0 \cdot q_S}{1 - q_S}$$

(2-4)

To obtain $N_0$ number of correct parts, $N$ number of parts has to be manufactured due to scrapped parts. The rate of scrapped parts is expressed by $q_Q$:

$$q_Q = \frac{N_0}{N} = \frac{N - N_0}{N}$$

$$N_0 = \frac{N}{1-q_Q} = N_0(1 + \frac{q_Q}{1-q_Q})$$

(5)

Losses in production rate are a fact when the cycle time has to be increased from $t_0$ to $t_0v$ to maintain the quality level or avoid unplanned downtime. The relative loss in production rate is described as:

$$q_P = \frac{t_{0v} - t_0}{t_{0v}} = 1 - \frac{t_0}{t_{0v}}$$

$$t_{0v} = \frac{t_0}{1 - q_P}$$

(6)

To changeover the production from manufacturing part A to part B a certain amount of setup time $T_{su}$ is required. The production time for a batch including the setup time:

$$T_p = T_{su} + N \cdot t_p = T_{su} + \frac{N_0 \cdot t_0}{(1-q_Q)(1-q_S)(1-q_P)}$$

(7)

The total average production time for manufacturing $N_0$ number of correct parts is calculated as:

$$T_{pb} = \frac{T_p}{N_0}$$

(8)

In the presented model there are primarily three cost items specified:

$k_C = equipment costs$

$k_D = staff costs$

$k_B = material costs$

Equipment costs for a machine or a production line can be split up into a cost during production $k_{CP}$ and a cost $k_{CS}$ when the machine or production is not running. For the case in question both these cost items include all of the costs that can be related to the equipment as investment cost, local cost, cost of maintenance, tool costs etc.

The cost of wages per hour $k_D$ are presumed to be independent of if the machine is running or not and also presumed to be unchanged during setup.

To study the material cost including scrapped parts and material waste, a material waste factor $q_B$ is introduced:
where \( k_{p0} \) is the materials cost for the manufactured part and \( K_p \) is the materials cost for the batch including scrapped parts and material waste. The material waste factor \( q_p \) consider the total consumption of material \( m_{tot} \) per part and comprises also material that are machined or cut off as for example chips during turning or milling and retainer surfaces during sheet metal forming. The remaining material in the machined part is denoted \( m_{part} \).

Reduced occupation in a manufacturing system leads to consequences for all manufactured parts. This situation can be considered differently, hence the free production resource can be considered both as an economic asset and a disadvantage depending on the situation. In a long term view the manufactured parts must carry the costs for the over capacity. The over capacity time can be distributed over all the batches in relation to their production time \( T_{pb} \) by introducing a degree of occupation \( U_{grp} \) calculated as the quotient between real production time per batch \( T_{prod} \) and planned production time \( T_{plan} \):

\[
U_{grp} = \frac{T_{prod}}{T_{plan}}; \quad T_{plan} = T_{prod} + T_{free}
\]

(10)

The extra free capacity \( T_{free,b} \) to be added to a specific batch is calculated as in equation 11. The free time can be considered as a setup time at the same time as the equipment is available for manufacturing:

\[
T_{free,b} = 1 - \frac{1}{U_{grp}} T_{pb}
\]

(11)

The manufacturing costs per part \( k \), including the previously described parameters and assumptions can be expressed as:

\[
k = \frac{K_{sum}}{N_0} + \frac{1}{N_0} \left[ \frac{k_{p0} N_0}{(1 - q_p)(1 - q_s)} \right] + \frac{1}{N_0} \left[ \frac{k_{m0} x_{su} N_0}{60 (1 - q_s)(1 - q_r)} \right] + \frac{k_{c2}}{60 N_k} \left[ \frac{x_{su} N_0}{(1 - q_s)(1 - q_r)} + \frac{q_s}{(1 - q_s)} + T_m + \frac{1 - U_{grp}}{U_{gr}} T_{pb} \right] + \frac{k_7}{60 N_k} \left[ \frac{x_{su} N_0}{(1 - q_s)(1 - q_r)} + \frac{q_s}{(1 - q_s)} + T_m + \frac{1 - U_{grp}}{U_{gr}} T_{pb} \right]
\]

(12)

In some cases it can be necessary to introduce a disturbance factor \( q_{Su} \) to handle spreading in the nominal setup time.

The cost item \( K_{sum} \) in equation 12 comprises different types of costs that are not described separately in the model. There are also cost items that are merged together in the model. For example is the tool costs integrated with the machine costs \( (k_c) \). A more complete economic model has a higher resolution and includes more of separate terms that are now included in \( K_{sum} \). A developed model can for example consider tool costs, cost of maintenance, remainder value of waste material, fixture costs, stock/buffer and transportation costs, surrounding equipment, costs arising due to environmental or recycling actions for example eliminating cutting fluids or oils.

6. DETERMINISTIC PRODUCTION DEVELOPMENT

To be able to manage production development efficiently, clear goals has to be established for the development activities. The development activities can be performed in relation to the company’s present production conditions or in relation to the competitors and other terms of the market. Example of production development goal functions are reduction of the manufacturing costs with 20 % for a certain part type, a 50 % reduction of setup time or an increase of production rate from 100 to 120 parts per week with unchanged cost parameters.

Considering that a lot of factors, isolated or in cooperation, influence the cost for a specific part, different changes in these factor can lead to same cost effects. To be able to separate the influence of these different factors on the part cost, different development factors are introduced. These development factors operate on different parameters in equation 12.

\[
k = \frac{K_{sum}}{N_0} + \frac{1}{N_0} \left[ \frac{k_{p0} N_0}{(1 - q_p)(1 - q_s)} \right] + \frac{1}{N_0} \left[ \frac{k_{m0} x_{su} N_0}{60 (1 - q_s)(1 - q_r)} \right] + \frac{k_{c2}}{60 N_k} \left[ \frac{x_{su} N_0}{(1 - q_s)(1 - q_r)} + \frac{q_s}{(1 - q_s)} + x_{su} \cdot T_m + \frac{1 - U_{grp}}{U_{gr}} T_{pb} \right] + \frac{k_7}{60 N_k} \left[ \frac{x_{su} N_0}{(1 - q_s)(1 - q_r)} + \frac{q_s}{(1 - q_s)} + x_{su} \cdot T_m + \frac{1 - U_{grp}}{U_{gr}} T_{pb} \right]
\]

(13)

In equation 13 the development factor \( x_p \) operates on the cycle time and enables therefore analysis of changes in cycle time. The development factor \( x_{su} \) operates on the setup time and enables therefore studies of changes in setup time. The cycle time and setup time are the most important parameters describing the capacity and flexibility in setup of a produc-
tion system. A development factor given a value less than 1.0 result in a reduction in cycle time and setup time, if the factors are given for example the value 0.5, the production time and setup time has been reduced to half of the original size. The development factors can therefore be regarded as improvement variables in a goal function.

A cost development factor \( \kappa_{C} \) is introduced to describe an investment cost that can be connected to a change in cycle time. The cost factor operates on the equipment costs \( k_{CP} \) and \( k_{CS} \). This factor is used to model changes in costs in primarily existing equipment, and can be used to determine the limit of investment justified to for example a decrease of the downtime rate to a certain value. For example does \( \kappa_{C} = 1.20 \) corresponds to an increase in equipment cost with 20%.

7. COST DERIVATIVES

Changes in part cost caused by a limited change in an arbitrary variable \( z \) is calculated by partial derivative, and is described in linear form as:

\[
\Delta k_i = \frac{\partial k_n}{\partial z} \Delta z
\]

(14)

The error obtain by the simplification in equation 14 is deceased by using Taylor formula, which is built up by a polynomial where the coefficients are the derivatives of the function up to the chosen order. Being able to consider the effects of derivatives of higher order, gives the possibility of determining the value of the function even for larger changes in the variable. Figure 1 and Figure 2 is examples of a production case, where the error or Lagranges residual term for polynomial with order 1 and 2, with changes in downtime \( \Delta d \) and scrap rate \( \Delta q_{sc} \). The errors in Figure 1 and 2 have the character of the first of the neglected term of order, which in the actual case is a function of the second and third degree.

![Fig. 1. Example of errors made when estimating the part cost under influence of changes in downtime \( \Delta d \) with a polynomial of order 1 (dotted graph) and 2 (continuous graph).](image1)

The below described relations are mainly based on the first derivative (first order), which leads to approximate results with errors in the same magnitude as illustrated in figure 1 and figure 2. In the case when the first derivative is constant and the second derivative equals zero, the correct value of function is obtained by assigning the actual variable \( z \) the value of \( z + \Delta z \). This is the case with for example the development factor \( x_{pi} \) and the cost development factor \( \kappa_{C} \). The second derivative of the part cost with respect to both of these variables is accordingly zero.

![Fig. 2. Example of errors made when estimating the part cost under influence of changes in downtime \( \Delta d \) with a polynomial of order 1 (dotted graph) and 2 (continuous graph).](image2)

The changes in part costs can in equation 15 be calculated with respect to different parameters as for example changes in wage costs, share of downtime \( \Delta d_{S} \), process development factor \( \Delta x_{pi} \) or cost development factor \( \Delta \kappa_{C} \). Equation 15 is exemplifying changes in part costs due to changes in different governing parameters.

\[
\Delta k_i = \frac{\partial k_n}{\partial x_{pi}} \Delta x_{pi} + \frac{\partial k_n}{\partial \kappa_{C}} \Delta \kappa_{C}
\]

(15)

Cost neutral changes in each variable can be studied by putting the change in part costs \( \Delta k_i = 0 \). Equation 15 is written in a cost neutral form in equation 16, describing the size of the reduction in downtime share required to compensate for a change in wage costs.

\[
\Delta d_{S} = \left( \frac{\partial k_n}{\partial x_{pi}} \right) \Delta x_{pi} + \left( \frac{\partial k_n}{\partial \kappa_{C}} \right) \Delta \kappa_{C}
\]

\[
\Delta \kappa_{C} = -\left( \frac{\partial k_n}{\partial \kappa_{C}} \right) \Delta d_{S} + \left( \frac{\partial k_n}{\partial x_{pi}} \right) \Delta x_{pi}
\]

(16)

Equation 17 describes a corresponding connection between cost development factor and changes in process development factors. The cost development factor in equation 17 indicate to what extent the equipment costs can be changed, if any or all of the
other parameters are changed, without an increase in part cost. The influence of a specific variable can be studied by calculating cost derivatives. A change in a variable giving a large influence on the part cost also gives large cost derivative values. It is hazardous to uncritically compare different cost derivatives with each other since the possibility of changing each variable is different. A weighting of the cost derivative can be made by multiplying the cost derivative with its functional value. A weighted cost derivative is a better indication of the impact each variable has on changes in the cost derivatives. All changes \( \Delta z \) in the variable \( z \) becomes relative with respect to the absolute value of the variable. By introducing a relative variable \( \Delta z / z_0 \) the changes expressed as a percentage for a specific variable can be compared with changes expressed as a percentage for another variable. This principal is expressed in equation (18).

\[
\Delta k = \frac{\partial (k_z)}{\partial z} \cdot \frac{\Delta z_0}{z_0}
\]

(18)

The quota \( \Delta z / z_0 \cdot 100 \) describes a change expressed as a percentage in the variable \( z \) in the point \( z_0 \).

8. MODEL EXAMPLE

The costs for two different production cases can be studied by introducing an index \( i \) tied to the parameters and variables in equation 13 in order to separate them. In the following the part costs \( k_i \) and \( k_2 \) are calculated for the presumption valid for each case. Two process development factors \( x_{pi} \) and \( x_{su} \) have been introduced in equation 13 to study the consequences of a changed process time respectively a changed set up time. The process development factors \( x_{pi} \) and \( x_{su} \) describes a change in the process time \( t_0 \) and the set up time \( T_{su} \). When the factors are set to for example 0.5, the process time and set up time have been halved. Below the developed model is exemplified by inserting technical and economic data.

<table>
<thead>
<tr>
<th>Economic data for the model (Sw.c. = Swedish crowns)</th>
</tr>
</thead>
<tbody>
<tr>
<td>( t_0 ) 10 min</td>
</tr>
<tr>
<td>( T_{su} ) 100 min</td>
</tr>
<tr>
<td>( k_{cp} ) 1000 Sw.c./h</td>
</tr>
<tr>
<td>( k_{cg} ) 700 Sw.c./h</td>
</tr>
<tr>
<td>( k_{ci} ) 200 Sw.c./h</td>
</tr>
<tr>
<td>( k_{ci} ) 50 Sw.c./h</td>
</tr>
<tr>
<td>( q_{pi} ) 20 Sw.c./part</td>
</tr>
<tr>
<td>( K_{sum} ) 0 Sw.c./batch</td>
</tr>
</tbody>
</table>

Table 1

Figure 3, 4 and 5 illustrate the part cost according to equation 13 under various conditions. In case 1 (dotted graph) is the wage cost \( k_{D1} = 200 \) Sw.c./h and in case 2 (unbroken graph) is the wage cost \( k_{D2} = 50 \) Sw.c./h. Figure 3 illustrate the influence of the wage cost only.

In figure 4 has production case 1 a decreased down time loss from \( q_S = 40 \% \) to \( q_S = 35 \% \) and the process development factor \( x_{pi} \) has decreased from 1.0 to 0.95. By these changes the difference in part cost between the two cases has more than halved, even if it differ a factor 4 in wage cost.

In figure 5 below the down time factor \( q_{si} \) has been further decreased with 5 \% to 30 \% and the process development factor \( x_{pi} \) is reduced to 0.80. In this situation the part cost of case 1 has been reduced so it becomes 30 crowns lower than of case 2 for batches larger than 100 parts.

In figure 6 the cost change \( \Delta k_i \) is illustrated in crowns as a function of change in down time loss \( \Delta q_{si} \) and change in relative wage cost \( \Delta (k_{D1}/k_{D2}) \). In the figure you can observe that a increase in part cost by 40 crowns can either be recived by increasing the down time loss 10 \% or the wage cost by 70 \%. In this linear model the corresponding decrease applies in the described variables.

In figure 7 the cost neutral changes are shown, which illustrate the balance for a change in wage cost and down time loss and also a change in part cost. In the figure it can be established that a wage increase by 40 crowns per hour i.e. 20 \%, corresponds a cost neutral improvement \( \Delta x_{pi} \) the process development factor \( x_{pi} \) by about 4 \% or a decrease in down time loss \( \Delta q_S \) by almost 3 \%.

![Fig. 3](image-url)
Fig. 4. The part cost of the production cases 1 (dotted graph) and 2 (continuous graph) as a function of the nominal batch size \( N_0 \). In both case 1 and 2 is \( q_Q = 5\% \) and \( q_S = 40\% \) for case 2 and 35\% in case 1, \( x_p \) is 1.0 in case 2 and 0.95 in case 1.

Fig. 5. The part cost of production case 1 (dotted graph) and 2 (continuous graph) as a function of the nominal batch size \( N_0 \). In both case 1 and 2 is \( q_Q = 5\% \). \( q_S = 40\% \) for case 2 and 30\% in case 1, \( x_p \) is 1.0 in case 2 and 0.80 in case 1.

Fig. 6. The relationships between the cost change \( \Delta k_1 \) and change in down time loss \( \Delta q_{S1} \) and change in relative wage cost \( \Delta k_{D1}/k_{D1} \). In this case is \( q_Q = 5\% \) and \( q_S = 40\% \), \( x_p \) and \( x_{su} \) is 1.0, the batch size 200 parts.

Figure 8 exemplifies a corresponding balance between a change in cost factor and a change in \( q_S \) and \( x_p \). In table 2 below the weighted cost derivative among others are shown for various variables with data from table 1. As expected a decreased cost (minus sign) is obtained when the batch size and the degree of occupation increase. The down time derivative is the largest in this case.

Table 2  Cost derivatives

<table>
<thead>
<tr>
<th>Parameter, starting value and description.</th>
<th>Cost derivative, type and weighted cost derivative</th>
</tr>
</thead>
<tbody>
<tr>
<td>( N_0 ) 200 Batch size</td>
<td>-0.025 Sw.c./unit</td>
</tr>
<tr>
<td>( q_Q ) 0.05 Scrap rate</td>
<td>356 Sw.c.</td>
</tr>
<tr>
<td>( q_S ) 0.40 Down time rate</td>
<td>487 Sw.c.</td>
</tr>
<tr>
<td>( k_{D2} ) 200 Wage cost</td>
<td>0.30 h/unit</td>
</tr>
<tr>
<td>( x_p ) 1.0 Development factor</td>
<td>327 Sw.c.</td>
</tr>
<tr>
<td>( x_{su} ) 1.0 Development factor</td>
<td>5 Sw.c.</td>
</tr>
<tr>
<td>( U_{OFF} ) 1.0 Degree of occupation</td>
<td>-297 Sw.c.</td>
</tr>
<tr>
<td>( \kappa_C ) 1.0 Investment factor</td>
<td>273 Sw.c.</td>
</tr>
</tbody>
</table>

9. DISCUSSION AND CONCLUSIONS

The developed model enable analyze and estimation of various technical and organizational development alternatives. The example shown in figure 7 illustrates for example how a higher wage cost can be compensated by technical and organizational improvements. Through studies of cost derivatives different alternatives related to production develop-
ment can be judged. High cost derivatives shows the strength of a certain variable. The example described in table 2, shows that the development factor $q_S$ and down time loss $q_d$ are two parameters with great influence on the part cost in this case. These parameters should be the basis for the choice of production development activities. Further it can be established that the degree of occupation $U_{GP}$ has a great influence on the part cost. In table 3 below the two production cases previously exemplified in charts are compared. The investment cost in research and development necessary to reduce $x_p$ from 1.0 to 0.80 and $q_S$ from 0.40 to 0.30 can for instance be weighted against alternative costs. The theoretical and practical possibilities to realize the necessary development for example in the case above must of course be estimated in each specific case. The conditions are highly governed by the present level of development and the belonged remaining development potential.

Table 3  The part cost for various technical and organizational circumstances for the nominal batch size $N_0 = 200$ parts.

<table>
<thead>
<tr>
<th>Example figure</th>
<th>Case 1 Part cost</th>
<th>Case 2 Part cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>339 Sw.c./part</td>
<td>294 Sw.c./part</td>
</tr>
<tr>
<td></td>
<td>$k_{D1} = 200$</td>
<td>$k_{D2} = 50$</td>
</tr>
<tr>
<td></td>
<td>$x_p = 1.0$</td>
<td>$x_p = 1.0$</td>
</tr>
<tr>
<td></td>
<td>$q_{S1} = 0.40$</td>
<td>$q_{S1} = 0.40$</td>
</tr>
<tr>
<td>2.</td>
<td>305 Sw.c./part</td>
<td>294 Sw.c./part</td>
</tr>
<tr>
<td></td>
<td>$k_{D1} = 200$</td>
<td>$k_{D2} = 50$</td>
</tr>
<tr>
<td></td>
<td>$x_p = 0.95$</td>
<td>$x_p = 1.0$</td>
</tr>
<tr>
<td></td>
<td>$q_{S1} = 0.35$</td>
<td>$q_{S2} = 0.40$</td>
</tr>
<tr>
<td>3.</td>
<td>262 Sw.c./part</td>
<td>294 Sw.c./part</td>
</tr>
<tr>
<td></td>
<td>$k_{D1} = 200$</td>
<td>$k_{D2} = 50$</td>
</tr>
<tr>
<td></td>
<td>$x_p = 0.85$</td>
<td>$x_p = 1.0$</td>
</tr>
<tr>
<td></td>
<td>$q_{S1} = 0.30$</td>
<td>$q_{S2} = 0.40$</td>
</tr>
</tbody>
</table>

The difficulties of using the described model are that the model demands accurate input data. A Systematic Production Analyze (SPA) made under representative circumstances is highly necessary to be able to estimate the parameters $q_D$, $q_S$ and $q_P$ and other parameters such as the set up time. From experience the equipment costs represent though the greatest difficulties. These problems are dealt with by Ståhl (2007) among others.

**REFERENCES**


Larsson, J and C-G Malmqvist (2002). *Outsourcing – erfarenheter av outsourcing i svenska företag*, Olle Sjöstedt information AB. Västerås


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