



OPERATIONAL PLANNING AND INDUSTRIAL COSTING



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OPIC V3.0

Operating in today's global competition require decisions. Decisions need to be effective which implies control and precise understanding of the actual situation. Nowadays the tools for the top management to understand problems, their cause and severity are nearly not existent.

The top manager has to balance a situation where sales vary in pricing and quantities, production varies in efficiency and transformation speed (with a part of the equipment unexploited, due to lack of orders) and purchasing is mostly dependent on a floating commodity exchange market.

It is a difficult equation which produces uncertainty and confusion, stress and spasmodic decisions which can provoke further problems. But it is an equation which can be solved.

Here comes OPIC (Operational Plan & Industrial Costing) as a system governing most of the company's major activities. It is an information system placed on top of the current information system of the Company, addressed to the top management – but useful to other managers as well, aiding them realize how every department's operations affect every other part of the Company-.It provides a series of procedures and information whose result is the deep and realistic understanding of the Company, its dynamic and behavior in the most precise manner.

With OPIC (Operational Plan and Industrial Costing) the manager will understand the Company's current situation, in a manner where decisions can be much easier and the solutions more obvious. At the same time these decisions can be compared and evaluated in a fast and trustworthy way.

OPIC recognizes two main areas in the top Management Activity.

- A. The plan of the Company (or how the Company is or could setup to operate).
A branch of this area is the financial budgeting of the Company
- B. The Actual reality of the Company (or how the Company really operates on a day-to-day basis pursuing this plan)

In simple words OPIC gives the opportunity to the top management to formulate an operational plan and then easily follow-up this plan.

The first area (A. Company's Plan) includes two important interrelated components:

A.1 Operational Plan

This functionality provides the Company with a model of operation which can be designed, taking into consideration the company's operations under today's economic conditions. The operational plan starts with the forecast of the products which we plan to sell, in terms of quantities and expected pricing under present marketing conditions. In a hierarchical manner all the production we need is calculated along with all the required resources, such as Labor, Energy, Raw and Other Materials. **The result will show if the Company -in the expected operating way- will produce profits, and why.** This procedure is of vital importance because from the beginning it shows to the top management the potential of the Company, if everything is going as planned. Furthermore, certain weaknesses or strengths of the operational plan are pinpointed in the most definite way.

An extremely useful extension of this Plan is the possibility to create various **simulation scenarios** where we can see how the company will behave in case some important or a combination of important parameters, like raw materials, sales price, productivity of the company, quality etc. change.

In this way the top management has a clear idea not only where the company is expected to reach under normal conditions, but also its dynamics, resistance and endurance in various changes.

A.2 Budgeted Product Costing

OPIC is addressed to Companies which manufacture many different products. Under this sense, product cost as an average is merely not enough. Data about Product Costing is of unique importance for the top management because it can guide the marketing and sales, as well as the development of new products and subsequently the company's operation and results. It will show how competitive the Company is in the Market and it will bring up opportunities for cost reduction steps.

OPIC, compared to what is the market today, uses one of the most sophisticated Product Cost Analyzer with more than 9 innovation points. **It is based on the principle that any resource at any operational stage is taken into consideration** in the cost calculation algorithm **with no simplifications, approaching the reality of the production** in an unprecedented form.

OPIC will show the cost components for each product, by production phase, the type of resource used, its quantity, pricing, the percentage of influence in the product cost. In this way, the change of a single parameter (e.g. Energy, Raw Material) can be immediately understood along with what cost reduction we expect to have when improving certain parameters. For example, the company decides that labor cost should decrease. In reality, this might lead, in some cases, to decrease the transformation speed. This decrease could be found more costly than the actual labor cost savings. Conventional costing systems cannot arrive to such a conclusion at all.

Finally, with OPIC a cost comparison between different production codes is achieved. This step can serve as a basis for differentiating the production mix so as the resulting operational plan will be much more profitable.

The second area (B. Company's Actual Reality) consists of another two also interrelated components dealing with the outcome of the operational plan's implementation

B.1 Actual Evolution of the Plan

The companies have sales, production and purchase operations daily but they lose the composite picture where the financial result of the company is given.

Some companies produce quarter term results, which means that within May they have the results of January, February & March.

The lack of the composite information means that the top management is actually blind for a long period concerning the most important information for the company which is **profitability**.

But even if they get the financial results in time, it is still difficult to understand the reason behind any problem presented.

It might be the sale pricing, the productivity or the raw material, as well as any combination of each of the above.

Also for the top management it is extremely difficult to evaluate the result of a decision taken due to the long time elapsed.

All these problems are resolved with another functionality of OPIC which can produce monthly financial results regarding the execution of the plan, which in some cases can go down to WEEKLY results. **But** OPIC can do so in **a few days** after the desired costing period.

It is an absolute **BREAKTHROUGH** in the management of manufacturing companies. Imagine being able to get the financial results of the previous week on Tuesday, or getting the results of the previous month on the first week of the next.

Now the top management will have a clear image of the company's results in shorter periods as well as the cause-effect of these results. It will be able to evaluate its decisions and to take corrective actions in much shorter time.

The information necessary for this analysis comes from the company's existent information system, or from OPIC supported data. There is a lot of data in today's information systems, used daily by various departments of the company, which unfortunately isn't designed to be used by the top management. OPIC changes this and uses all of the available information in an intelligent way to serve the needs of the Top Management.

B2. Actual Cost

In the same way the ACTUAL COST of all products in the real working conditions, productivity, waste and quality will be seen, and will facilitate decision making for short term policies and corrective actions. It is the absolute tool for corrective actions.

Epilogue

OPIC is a system which has a ROI of a few months.

It will provide important advantages to the Top Management such as:

- Management-wise a whole area of **uncertainty will be transformed to certainty** changing the management psychology, mentality and even culture
- **Clear communication** with all the department managers, common language and culture based on objective facts
- Clear **analysis** of the Company's **competitiveness**
- **Detection of important deviation** from the Plan in every company operational parameter
- **Discovering production codes with higher cost** than expected
- **Discovering the important parameters that influence the cost of each product**
- **Developing profitable** new products
- **Developing new and revised operating procedures** concerning almost every procedure within the company
- **Show the necessities and returns of important investments (ROI)**
- **Show the important points of further detailed analysis**

OPIC is a modular OPEN system, designed to co-operate with all the modern main information systems and has great extensibility.