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Chapter XI

Production Planning Redesign: Special Topics

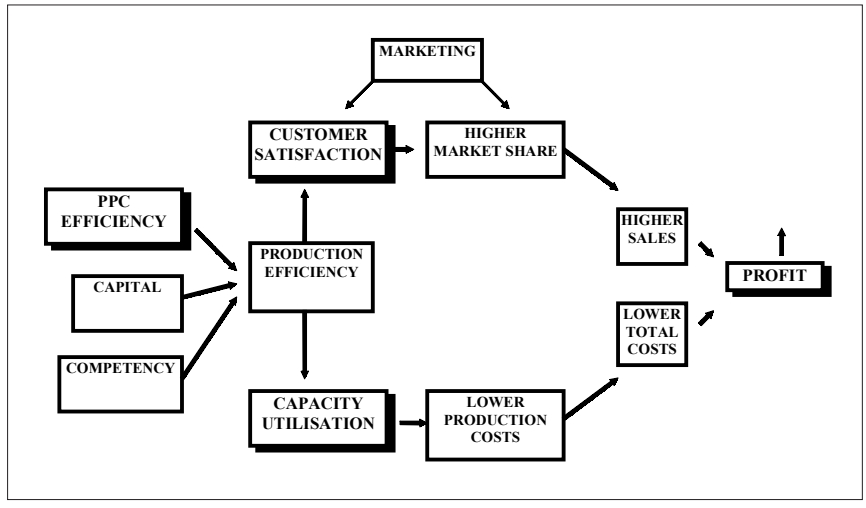
Competitive Advantage from Production Planning

For manufacturing companies, competitive advantage is ultimately measured in terms of financial results, and the key financial result is usually a margin of profit from sales, which then translates into a margin of return on investment.

How then does production planning and control (PPC) have a significant influence on this outcome? It is our contention that efficient production planning is one of the three *crucial* and *vital* driving factors that enables the other functional areas to be effective. Figure 11.1 displays the driving position of PPC in a causal relationship layout.

Efficient *PPC* has a direct and beneficial influence on both *customer satisfaction* and *capacity utilisation*. The first leads to greater sales volume, and the second to lower costs, both of which have a major impact on *profits*.

Figure 11.1. The linkage of production planning and control to profits



It is the role of production planning to set up a regime of production situations that are achievable, controllable, and best utilise the available capacity. This last point brings us to the unique position of PPC in today's business environment. For many years companies have seen marketing as the main pathway to competitive advantage. However, the potential to gain significant competitive advantage has now been opened up to operations areas through the revolution in information technology. Initial major cost and efficiency gains have been made in inventory management through production philosophies such as just-in-time (JIT).

However, capacity is more expensive than inventory, and it is in this area (capacity management) that companies, especially in New Zealand and Australia, have the largest potential to gain competitive advantage.

The current performance in capacity management is very low, but because most companies are at a relatively equal position, low performance has become an accepted norm. The development of information technology will change this, however, and it is our belief that the next big wave of competitive advantage will come from managing capacity more efficiently. For this to occur, companies need skill-based competencies in production information systems and production-planning systems design.