

1994 KEY AREA: UTILISATION OF PRODUCTION RESOURCES

1. Capacity Plan

Manufacturing capacity should be planned to meet Marketing forecasts including seasonal and other fluctuations. Additional capacity should only be planned in nominated key operating companies or when markets are particularly volatile and spare capacity elsewhere in BAT cannot be used due to sourcing or import restrictions.

Where possible, contract manufacture, which absorbs surplus capacity in other BAT companies, must be considered as an alternative to investment in new capacity or where there are overall cost benefits.

For hygiene reasons, Primary manufacture should not be planned for full three shift operation.

Contingency plans should be made to respond to a disaster at a production site or warehouse or at a key supplier. Plans should be consistent with the format being developed at Southampton plant and should include procedures to:-

- Assess then minimise risk
- Manage the disaster and minimise its effect on personnel and property
- Establish alternative production sources in the event the disaster could produce interruptions to market supply
- Restore production capability.

2. Machinery

Investment in new machinery must always maintain or improve product quality.

New technology will be adopted where product and commercial benefit can be shown.

Machinery purchases should be consistent with BATCo and regional machinery standardisation.

Machinery utilisation should be maximised, including the use of multi shift working where this is cost effective.

3. Production Costs

Companies should aim to be the lowest cost producer where competitive markets exist and to achieve cost reductions of at least 5% per year in real per mille costs (excluding depreciation) on average over the plan period.

Competitor production performance and capability should be specifically reviewed on a regular basis with particular reference to their production strategy and production cost structure.

502622144

Production departments should provide Marketing with information on each product manufactured which reflects the true costs of the different cigarette and pack specifications, production volumes etc. A costing model which allows allocation of fixed and variable production costs to brands is being developed at Southampton.

Production plans to reduce costs should identify:-

- 3.1 Targets for improving productivity in the direct and indirect areas.
Strategies should include.

Flexible Working practices
Team Working and "Mini Factories"
Reduced Product handling
Contracting out services, if financially viable, and with a view to improving the quality of service
Use of effective information systems
Machinery investment where justified
Reduced layers of management
Reduce inventory & working environment

- 3.2 Targets for process and material cost reductions.
Strategies should include:-

The principles of MRPII
Reductions in stock levels, including Finished Goods, WMS and R&RS
Rationalisation of specifications
Reductions in energy usage ratios and energy costs
Regional Cooperation on stock items
Use of Procurement Dept. to ensure competitive purchasing

- 3.3 Targets for improved use of existing resources.
Strategies should include:-

Machine Efficiency improvement programmes
Improvements to material and cut tobacco quality
Comprehensive maintenance and machine cleaning programmes
On floor management and supervision
Improvements in skills, through local or regional training
Reduced machine change over times
Disposal of surplus assets.

4. Product Quality

Companies should plan that product quality meets the expectations of the consumer, is superior to that of competition where this exists and that, as a minimum, products meet standards set under relevant legislations.

502622145

Production plans to improve product quality should show targets for improvements in Product Quality Ratings, performance against competition (where appropriate) and reductions in consumer complaints. Strategies should include:-

- Moving responsibility for quality to machine operator level
- Quality training at all levels
- Quality Performance Audits and Reviews at shop floor level
- Compliance with QC Protocols and Q Methods
- Investment in on line quality measurement
- Off line quality measurement at the point of manufacture
- Quality data and complaints analysis
- Quality systems and procedures which are consistent with the principles of ISO 9000
- Machinery investment where specifically justified
- Effective Machine maintenance programmes
- Working with material suppliers to enhance the quality of their products and services.

X 5. Health and Safety

Companies should aim to eliminate all accidents and risks to health to personnel on BAT premises.

Production plans to improve Health and Safety should show strategies for reducing the number of accidents and the time lost through accidents and for improvements in hygiene. Strategies should include:-

- Compliance with BAT safety requirements as expressed in BAT Safety Manuals and Guidelines
- Ensuring that contractors are carefully selected and supervised and are obliged to adhere to BAT standards of safety
- Compliance by visitors with BAT safety standards
- General and job specific safety training for all employees
- An effective safety organisation and regular safety meetings and audits at Company and Departmental level
- Promotion of the safety message through specific campaigns and programmes such as "Safety Week"
- Provision of safe systems of work
- Detailed investigation of all accidents and incidents which could have led to an accident
- Machinery which is fully guarded and interlocked
- Safe storage and use of hazardous substances
- Effective systems for fire prevention and fire fighting at all locations, including remote warehouses and depots
- Elimination of electrical hazards
- Meeting all relevant legislation
- Maintaining the highest standards of hygiene in the factory, lavatories, kitchens etc., including regular Hygiene Audits

502622146