<u>GRADE 11</u>. BUSINESS STUDIES

TOPIC :CAPACITY UTILISATION

<u>Capacity definition</u>

the MAXIMUM TOTAL LEVEL OF OUTPUT OR PRODUCTION that a business can produce in a given time period

a company producing at this level is said to be producing at full capacity

<u>Capacity Utilisation definition</u>

the % of a FIRM'S TOTAL POSSIBLE PRODUCTION LEVEL thats being reached

if a company is large enough to produce 100 unitys a week but is actually only producing 92 = 8% CU

<u>capacity management</u>

concerned with the usage of the resources of a business

involves trying to get the most effective and efficient usage from the present capacity and anticipating and planning future capacity requirements

they need to manage: SPARE CAPACITY/UNDER-UTILISATION +
CAPACITY SHORTAGE

- factory space
- machines available
- amount of raw materials at hand
- amount of labour available
- IT capacity within a business

<u>under- utilising capacity</u>

<u>EXCESS OR SPARE</u>

firm's OUTPUT IS BELO MAXIMUM POSSIBLE OUTPUT

= represents a waste of resources or spare capacity
= organisation is spending unnecessarily on its fixed assets

whats the ideal

90% is a sensible CU target

gives business flexiblity to have:

- machine downtime and maintenance
- now overwork and stress workers
- give flexibility to meet sudden ordersand deal with emergencies

this spare capacity also means:
- under-utilised resources
- higher average unit costs

whats capacity shortage

when a firm's capacity is NOT LARGE ENOUGH TO DEAL WITH THE LEVEL OF DEMAND for its products

disappointed customer + loss of sales

what causes spare capacity

- competition taking their customers
- poor product
- incorrect marketing and advertising

ext:
- seasonal demand
- economy potentially being in a recession
- fall in demand for products
- over-investment in non-current assets

formula for capacity utilisation

actual/current production level
__________________________ X 100

maximum possible output

how to achieve full/high capacity

- increasing the demand for the products you produce

^^^^^^ marketing dept campaigns to increase demand so more goods will need to be made but you also run the risk of going over full capacity = need more investment

- reduce capacity - improve efficiency by cutting the scale of operations
^^^^^^ 'MOTHBALLING' some capacity is kept but taken out of usage (stored ready to be used when economy gets better)
^^^^^ productive capacity is also reduced - econmic climate for demand is reduced

- producing different extra products with the same resources
^^^^^ produce other goods or variations to increase output and reach full capacity

full capacity constraints

- level of competition within the market in relation to the size of the market
^^^^ less likely for full to be obtained if all competitors are competing for the little consumers they have

- stage of product in product lifecycle
^^^ if demand is declining then full is unlikely

- if the product is seasonal
^^^^ demand will be lower it certain times and production levels will be below full capacity

- new alternatives have entered the market
^^^^ reduced demand with new options and choice available, lower level of production

- outsourcing
^^^^ reduce the capacity utilisation

- increased capacity
^^^^ reduce the ability to reach full capacity especially if too much investment has taken place

why under-utilisation/spare is bad?

- fixed costs arent spread over many units = high cost per unit

- probably not benefitting from EOS
- possibly waste
- staff under-utilised for motivation and employment
- no opportunities for bonuses/overtime
- demand isnt high enough > not selling enough > not enough profit
- bad for most stakeholders as its a sign of a FAILING BUSINESS

is 100% full capacity utilisation good

in the short term

depends on the scernario though
= football match once a week for 1hr 30 mins

in the long term = involves turning away customers/additional orders and competitors gain

why?
- overcrowding and pressure
-downtime is needed
-maintenance time is needed, changing production methods, training
- quality issues as work is rushed

= ideal CU is therefore dependable

how can a firm operate above 100% capacity/full capacity

- additional work hours for employees
- subcontract work + outsource (agencies)

solutions to manage capacity utilisation

INCREASING DEMAND
- marketing, 4ps in marketing mix, degree of competiton, stage in product lifecycle, seasonal, product variations, obsolense

REDUCING CAPACIT
- cut supply, try again in 3 years time due to 'mothballing' = a drastic approach, alter staff hours, 'down-scaling'

managing too high or too low CU

too low = then raise demand, reduce supply (capacity)

too high = then raise supply, reduce/spread out demand