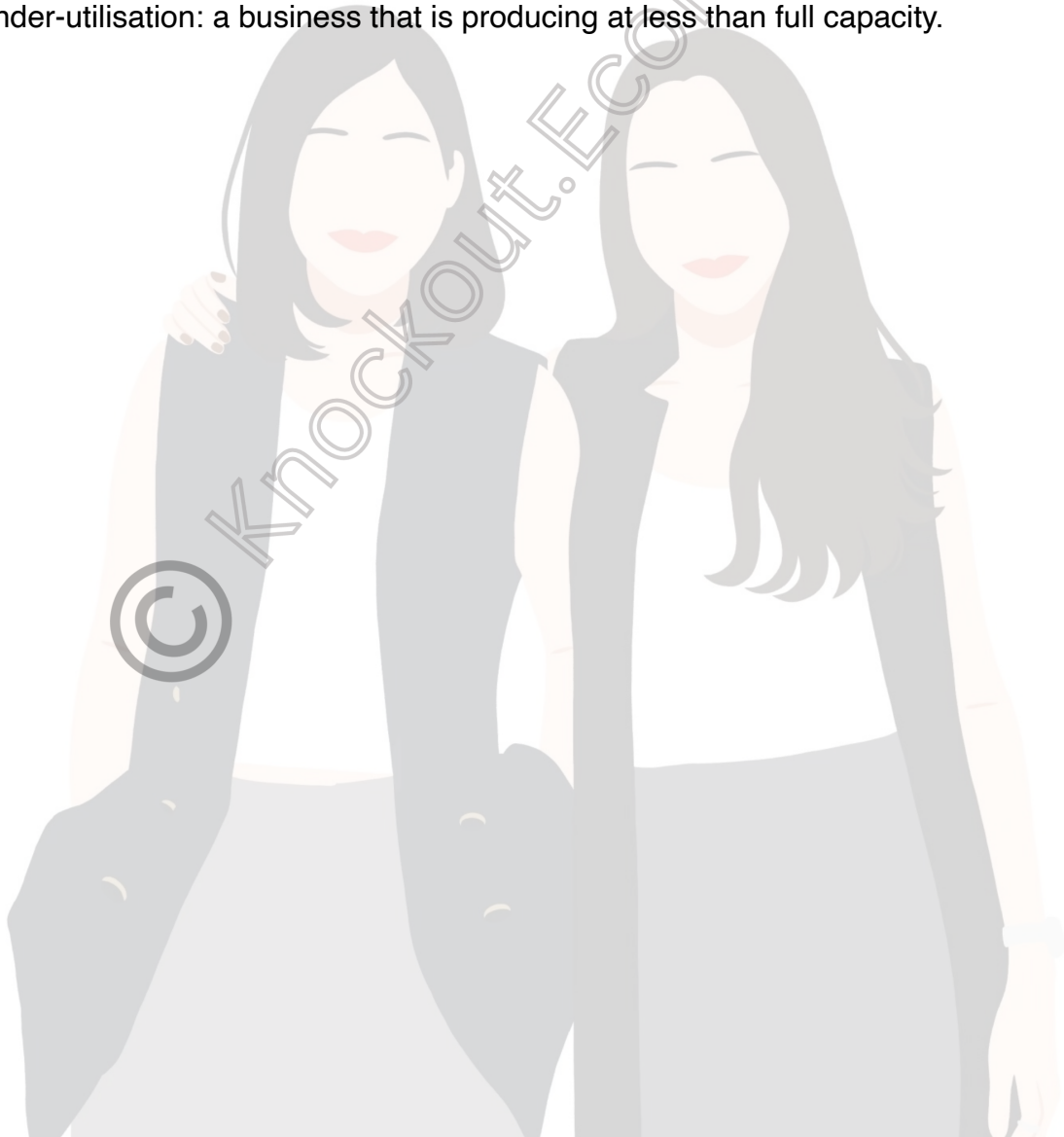


CHAPTER 38 Capacity utilisation

Key terms

1. Capacity utilisation; is about the use that a business makes of its resources.
2. Excess or surplus capacity: when a business has too many resources, such as labour and capital, to produce its desired level of output.
3. Full capacity: the point where a business cannot produce any more outputs.
4. Mothball: leave machines, equipment or building space used, but maintained, so they could be brought back into use if necessary
5. Over-utilisation: a business that is running at full capacity and straining resources.
6. Rationalising: reducing the number of resources, particularly labour and capital, put into the production process, usually undertaken because a business has excess capacity.
7. Under-utilisation: a business that is producing at less than full capacity.



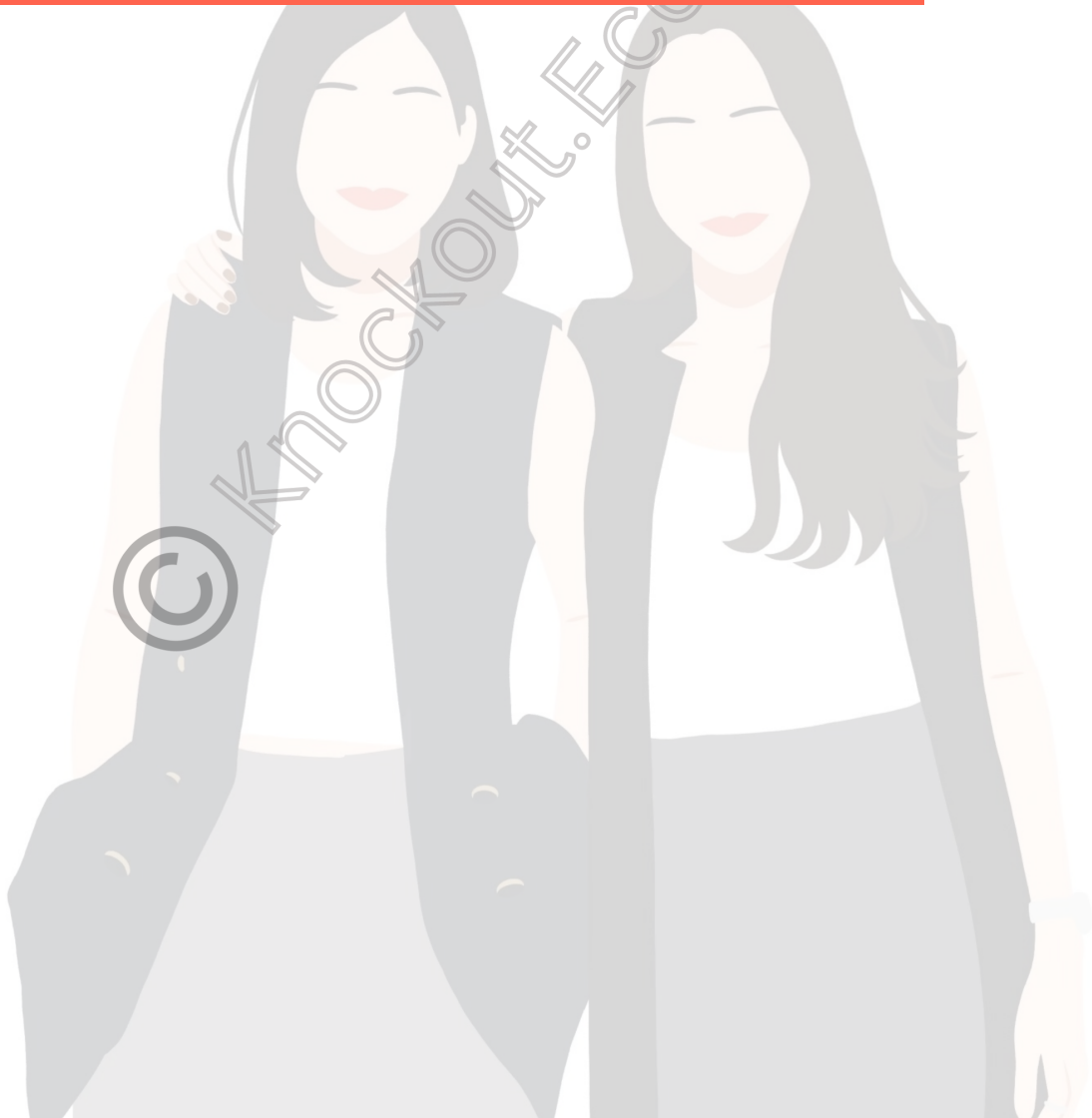
1. Capacity utilisation

- **Capacity utilisation**; is about the use that a business makes of its resources.
- **Excess or surplus capacity**: when a business has too many resources, such as labour and capital, to produce its desired level of output.
- **Full capacity**: the point where a business cannot produce any more outputs.

2. Measuring capacity utilisation

- Capacity utilisation can be measured by comparing actual or current output with potential output at full capacity

$$\bullet \text{ Capacity Utilisation} = \frac{\text{Current Output}}{\text{Maximum possible output}} \times 100.$$



3. Implications of under-utilisation

Disadvantages

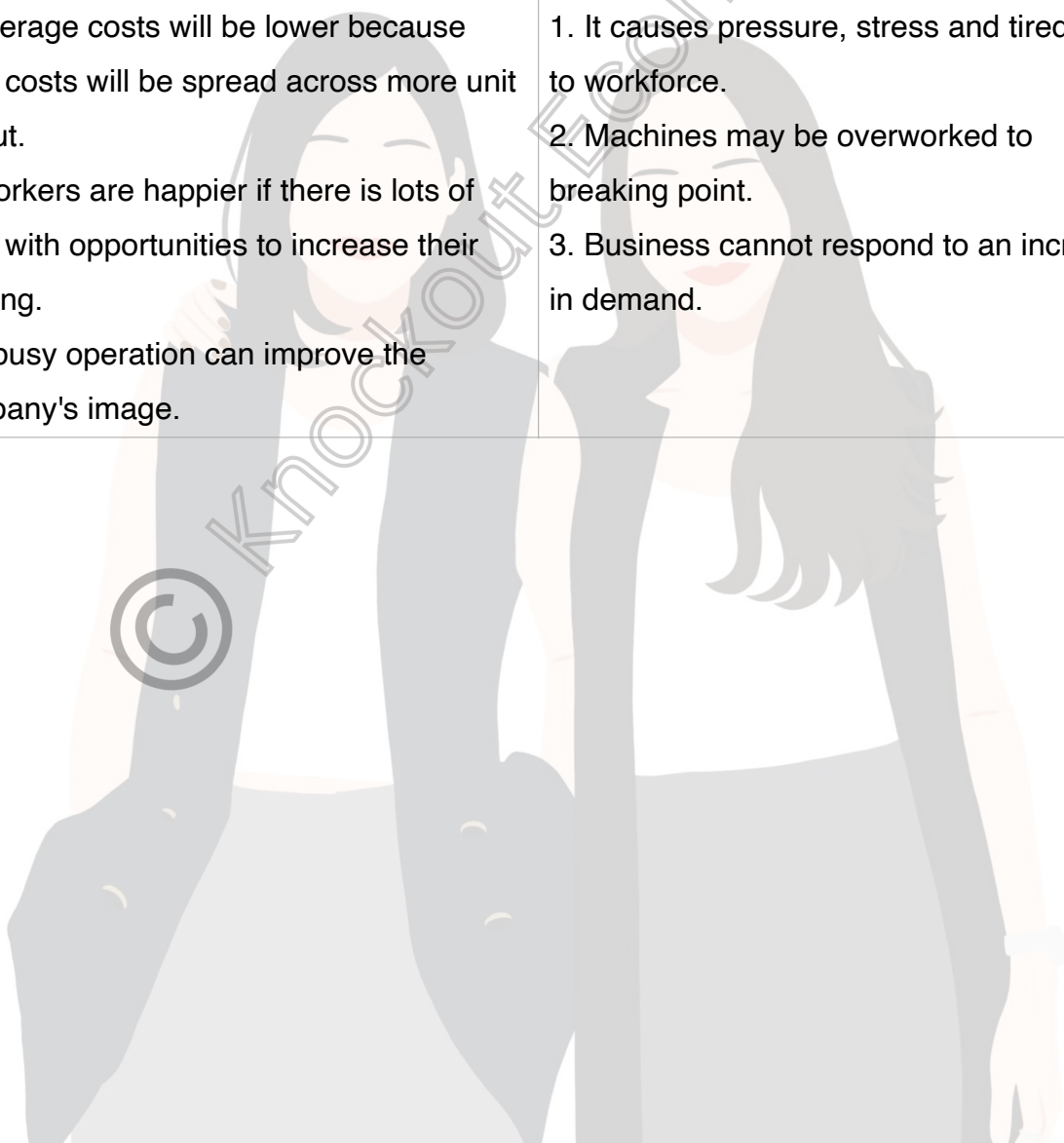
- ↳ It will not be making the most of its resources.
- ↳ Workers may feel insecure if the business is struggling to generate orders.

Benefits

- ↳ Business is able to increase production with sudden increase in demand.
- ↳ Both workers and managers will be more relaxed and comfortable with their workloads.

4. Implications of over-utilization (A business is running at full capacity)

Advantages	Disadvantages
<ol style="list-style-type: none">1. Average costs will be lower because fixed costs will be spread across more unit output.2. Workers are happier if there is lots of work with opportunities to increase their earning.3. A busy operation can improve the company's image.	<ol style="list-style-type: none">1. It causes pressure, stress and tiredness to workforce.2. Machines may be overworked to breaking point.3. Business cannot respond to an increase in demand.



5. Dealing with capacity under-utilisation

1. Reduce capacity ; by rationalising \Rightarrow getting rid of resources that the business can do without.

- 1) reduce staff
- 2) sell off unused fixed assets
- 3) leasing unused assets e.g. floor space

2. Increase sales

3. Increase usage during off peak time

4. Outsourcing ; hiring or contracting another business to do work.

5. Redeployment (if business has too many resources in one part it may deploy them in another part.

6. Dealing with capacity over-utilisation

1. Increase inventories : it a business knows in advance that demand will increase in the future.

2. Raising price

3. Outsourcing

4. Deployment

5. Acquiring the temporary use of resources e.g. part-time workers.

