Capacity Utilisation

The proportion of maximum output capacity currently being achieved/used.

$$\text{Cap. Ut} = \frac{\text{current output level}}{\text{maximum potential output level}} \times 100\%$$

Read 'introducing the unit' and consider the 'points to think about'.

A good measure of performance, competitiveness and demand.

Page 437 – question 2 calculations

Impact on fixed costs

If CU is high, the fixed costs will be spread out over a larger number of units – economies of scale.

100% CU is the ideal, but in reality…?

- Inflexible – can't take special orders or respond quickly to changes in demand. Also overproduce.
- Regular customers who place new orders will have to wait
- No opportunity to repair or maintain (no down-time)
- Staff will feel under constant pressure – motivation issues, labour turnover/absenteeism and productivity will decrease.

Excess/Spare Capacity

Exists when current levels of demand are less than the full capacity output of a business.

Activity 23.1, page 432.

Several short and long term options available…see P434.

Full Capacity

When a business is producing at its maximum output.

Should the business…
- Increase scale? Risk?
- Keep existing capacity and outsource work?
- Simply continue to work at full capacity?

Outsourcing

Using another business to undertake part of the production process, freeing up capacity.

BPO (business process outsourcing) – as above, but for entire business functions eg. HR, ICT.

- Reduces costs
- Frees up capacity
- Improves company focus (in the case of BPO)

However?

Culture clash/difficult to manage (timezones?)
Quality issues
Loss of jobs/redundancy payouts