

Capacity Utilisation

Write a definition of capacity utilisation here: (select the correct answer)

Capacity utilisation is the extent to which the maximum capacity for output that is being used.

Capacity utilisation is the existence to which the minimum capacity for output that is not being used.

Why is this a cost to the business? (select the right choices)



Because it does not allow for the fixed costs to be paid, as there are no passengers, but they are still running.

Because it does allow for the fixed costs to be paid, as there are no passengers, but they are still running.

This is not a cost to the business.

Why is this a cost to the business?



What action should the airline take?

They should not do anything over time it will be ok.

They should look at putting on an offer to ensure, that more people will be on the flight.

They should put the prices up to cover the cost of all the seats.

Capacity utilisation explained

- **In any business there are decisions to be made about how best to _____ resources**
- **An operations manager will need to make daily decisions about how best to turn inputs such as _____, labour and _____ into outputs**
- **Capacity utilisation is how best to use those _____ for the benefit of the business.**



Resources

Capital

Deploy

Machinery

Capacity utilisation explained continued

- If a business cannot increase its _____, it is at full capacity
- For example, a 295 seat plane if it is full then it is _____ at full capacity
- If the plane is half full then it is running at 50% _____
- One way to improve capacity is to reduce the cost of less popular _____ times “off-peak” travel



Flight Capacity Output Running

Capacity utilisation explained continued

- Capacity utilisation is important as it has a bearing on _____ cost per unit and therefore EOS (Economies of scale)
 - In high capacity utilisation the _____ costs are spread over more units of production
 - In low capacity utilisation the fixed costs can be _____ high to stay in business or keep _____ that product



Producing Too Fixed Average

Write the capacity utilisation formula here: (hint: multiply 100)

Example calculation:

Extract F

Production data for soft drinks manufacturers A and B

Manufacturer	Current output (units)	Maximum output (units)
A	250,000	500,000
B	400,000	500,000

(Hint: think about Current Output/Maximum Output x 100)

Using the data in Extract F, explain **one** implication of the level of capacity utilisation for the soft drinks manufacturer A, compared to B. You are advised to show your working.

(4)