# 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?

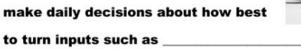
They should not do anything over time it will be ok.

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





, labour and

into	output

Capacity utilisation is how best to use those for the benefit of the business.

Resources

Capital

Deploy

Machinery

# Capacity utilisation explained continued

conti	nued				-	
٠	If a busine	ss cannot	-	-	_8	-
	increase it	ts			-	H
		, it is	at			
	full capaci	ty				
•	For examp	le, a 295 seat <sub>l</sub>	plane if it	is full th	en it is	
		at fu	II capaci	ty		
•	If the plan	e is half full the	en it is ru	nning at	50%	
٠	One way to	o improve capa		reduce t		f less popular
			о оп ре			
		Flight	Capacity	Output	Running	
					-	
Cana	city utilisat	ion explained o	continue	100		A
		ilisation is impo				
	(5) (5)	ng on		136	<b>_</b> 0	Busi
	cost per un	it and therefore	EOS			
	(Economies	of scale)				
	· In his	gh capacity utilis	sation the			costs are spread
	over	more units of pr	oduction			
	· In lo	w capacity utilis	ation the	fixed cost	s can be _	high
	to st	ay in business o	r keep		1	that product
	Producing	Too		Fixed	Av	verage

### **Example calculation:**

#### Extract F

Production data for soft drinks manufacturers A and B

Manufacturer	Current output (units)	Maximum output (units)		
Α	250,000	500,000		
В	400,000	500,000		

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

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