

# B Business Management – Operations Management

## 5.5 Production Planning – Capacity Utilisation Summary Notes



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### OVERCOMING LONG-TERM CAPACITY SHORTAGE PROBLEMS

Long-term capacity shortage		
	Advantages	Disadvantages
<b>Option 1:</b> Use <b>subcontractors</b> or <b>outsourcing</b> of supplies, components or even finished goods	<ul style="list-style-type: none"> <li>No major capital investment is required.</li> <li>Should be quite quick to arrange.</li> <li>Offers much greater flexibility than expansion of facilities – if demand falls back, then the contracts with other firms can be ended.</li> </ul>	<ul style="list-style-type: none"> <li>Less control over quality of output.</li> <li>May add to administration and transport costs.</li> <li>May be uncertainty over delivery times and reliability of delivery.</li> </ul>
		<ul style="list-style-type: none"> <li>Unit cost may be higher than in-house production due to the supplier's profit margin.</li> </ul>
<b>Option 2:</b> Capital investment into expansion of production facilities	<ul style="list-style-type: none"> <li>Long-term increase in capacity.</li> </ul>	<ul style="list-style-type: none"> <li>Capital cost may be high.</li> </ul>
	<ul style="list-style-type: none"> <li>Firm is in control of quality and final delivery times.</li> </ul>	<ul style="list-style-type: none"> <li>Problems with raising capacity.</li> </ul>
	<ul style="list-style-type: none"> <li>New facilities should be able to use latest equipment and methods.</li> </ul>	<ul style="list-style-type: none"> <li>Increases total capacity, but problems occur if demand falls for a long period</li> </ul>
	<ul style="list-style-type: none"> <li>Other economies of scale should be possible too.</li> </ul>	<ul style="list-style-type: none"> <li>Takes time to build and equip a new facility.</li> </ul>

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