



The Scale of Operation

- There is no “ideal” business size.
- Each business must find the size most suitable for its operations.

● However, business size can be measured in 5 ways:

➤ **Turnover:** Measures the total value of sales over a given time

- ◆ Small = Turnover < £1.4 M
- ◆ Medium = Turnover between £1.4 M and £5.75 M
- ◆ Large = Turnover over £5.75 M



➤ **Employees:** Classifies businesses according to the number of workers:

- ◆ Small = Less than 50 workers
- ◆ Medium = Between 50 and 250 workers
- ◆ Large = Over 250 Workers

➤ **Capital Employed:** Compares the money invested within a business

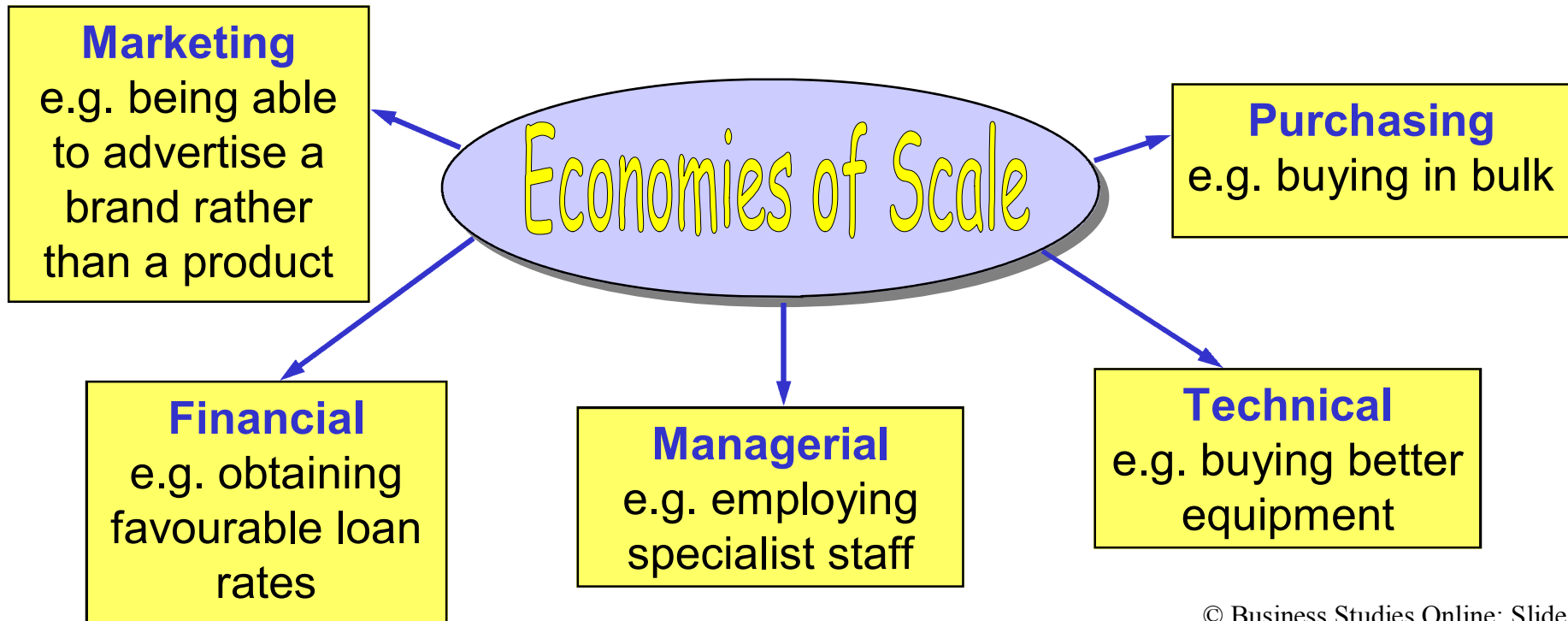
➤ **Profit:** Compares the profit levels of firms

➤ **Stock Market Value:** Compares the value of companies



Economies of Scale

- The main advantage of being a larger business relates to economies of scale
- This is where a business can lower their costs because of their size
- Economies of scale can be achieved in 5 ways:





The Problems of Growth

- Sometimes being large can have disadvantages
- These are often referred to as **DISECONOMIES OF SCALE**
- Possible diseconomies of scale include:
 - **Communication becomes difficult**
 - This means decisions may take longer
 - **Management and workers are separated**
 - This means worker may not work as hard
 - **Firm is less flexible**
 - It may not be possible to change production quickly





Capacity

- Getting the size of a business right will help to improve profits
- Sometimes it is impossible to avoid situations where production lines are sitting idle
- This is particularly problematic for seasonal products
- To minimise these problems a business must be aware of it's capacity
 - Capacity is the amount of output a firm is capable of producing





Capacity Utilisation

- Usually a business will want to produce to capacity
- This will allow fixed costs to be as thinly spread as possible
- This in turn means that unit costs are as low as possible.
- In order to measure the use of capacity a firm must measure its capital utilisation
- This is measured using the following formula:

$$\text{Capacity Utilisation} = \frac{\text{Actual Output}}{\text{Capacity}} \times 100$$



Increasing Capacity Levels

- There may be occasions when a firm needs to produce more than their normal capacity
 - e.g. a toy manufacturer before Christmas
- There are a number of ways this can be dealt with:
 - **Changing shift patterns**
 - more hours are worked than normal
 - **Longer opening hours**
 - i.e. shops at Christmas
 - **Employ temporary workers**
 - i.e. the Post Office at Christmas
 - **Overtime**
 - this is usually paid at a higher rate than normal





Decreasing Capacity Levels

- When a firm is producing too much, or has spare capacity, then the problem is more serious
- There are a number of ways that business can reduce their capacity – none of which are easy
 - **Use more part-time staff**
 - so that their hours can be reduced more easily
 - **Stockpile**
 - this incurs the problems of holding too much stock
 - **Reduce prices**
 - in the hope that this will increase demand
 - **Redundancies**
 - reduce the number of workers (in labour-intensive firms)
 - **Branch closures**
 - close parts of the business (if problem is long-term)

