

(c) Assess the likely impact to a firm such as Boeing of over-utilisation of capacity.

(10 marks)

Over utilisation of capacity is when a business is operating at near full capacity at a given time period. A positive impact to a firm, such as Boeing, of over-utilisation of capacity is cheaper costs. A high level of production enables economies of scale and fixed costs are spread over more units which is especially important for Boeing as its Dreamliner project is running late and over budget, meaning the reduction of unit costs allows for a larger profit margin. This money can be put towards finishing off this project, ensuring customers which will keep Boeing competitive. However, an increase in profit margin will only be beneficial with high sales, and with a backlog of 10000 aircrafts, customers may switch to competitors and therefore reducing sales.

A negative impact of over-utilisation is that a business would have to turn away demand which will benefit their competitors. Boeing currently have order backlogs of 10000 aircrafts and therefore cannot accept any new orders. This stops the growth of Boeing as they are gaining no new market share, but their competitors are gaining an advantage over them. A fall in sales reduces Boeing's revenue meaning they have less to spend on R+D into new innovative plane designs.

Overall I believe that Boeing will be impacted more negatively by over-utilisation of capacity due to being faced with expenses and other major problems which will add to the pressure of their ~~ore~~ order backlog and exceeding their budgets. The stress of these issues then may effect the culture of the business and cause communication problems. Over-utilisation of capacity will not be of benefit to Boeing. ✓

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Excellent!
Strong arguments