

5.3: Defining and Measuring Capacity

When selecting a measure of capacity, it is best to choose one that doesn't need updating. For example, dollar amounts are often a poor measure of capacity (e.g., a restaurant may have capacity of \$1 million of sales a year) because price changes over time necessitate updating of that measure.

When dealing with more than one product, it is best to measure capacity in terms of each product. For example, the capacity of a firm is to either produce 100 microwaves or 75 refrigerators. This is less confusing than just saying the capacity is 100 or 75. Another method of measuring capacity is by referring to the availability of inputs. This is usually more helpful if we are dealing with several type of output. Note that one specific measure of capacity can't be used in all situations; it needs to be tailored to the specific situation at hand. The following table shows examples of both output and input used for capacity measures.

Table 5.3.1: Various businesses and their respective input and output measures of capacity.

Type of Business	Input Measures of Capacity	Output Measures of Capacity
Car manufacturer	Labour hours	Cars per shift
Hospital	Available beds	Patients per month
Pizza parlour	Labour hours	Pizzas per day
Retail store	Floor space (sq. ft.)	Revenue per sq. ft.

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