

4.2: Capacity Planning for Products and Services

Capacity refers to a system's potential for producing goods or delivering services over a specified time interval. Capacity planning involves long-term and short-term considerations. Long-term considerations relate to the overall level of capacity; short-term considerations relate to variations in capacity requirements due to seasonal, random, and irregular fluctuations in demand.

Excess capacity arises when actual production is less than what is achievable or optimal for a firm. This often means that the demand in the market for the product is below what the firm could potentially supply to the market. Excess capacity is inefficient and will cause manufacturers to incur extra costs. Capacity can be broken down in two categories: Design Capacity and Effective Capacity.

Three key inputs to capacity planning are:

1. The kind of capacity that will be needed
2. How much capacity will be needed?
3. When will it be needed?

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