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GCSE Business Studies

## Productivity & Efficiency

### Introduction

A business should constantly be trying to improve its efficiency. In many markets, a business needs to be at least as efficient as its main competitors in order to be able to compete and survive in the long-term. A more efficient business will produce lower cost goods than competitors and may generate more profit possibly at lower prices

Increasing efficiency will boost the capacity of a business, assuming there is no change in the number of inputs employed. The capacity of a firm refers to how much a business can produce during a specific period of time.

### Efficiency

Where a business has efficient production, it is operating at maximum output at minimum cost per unit of output. **Efficiency** is, therefore, a **measure of how well the production or transformation process is performing**. However, this is not always easy to assess.

There are several ways to measure efficiency

### Productivity

This measures the relationship between inputs into the production process and the resultant outputs. The most commonly used measure is labour productivity, which is measured by output per worker. For example, assume a sofa manufacturer makes 100 sofas a month and employs 25 workers. The labour productivity is 4 sofas per person per month.

There are several other measures of productivity.

- ▶ Output per hour / day / week
- ▶ Output per machine

### Unit costs

Unit cost (also referred to as cost per unit) divides total costs by the number of units produced. A falling ratio would indicate that efficiency was improving.

Unit costs = Total Costs / Units of output

### Stock levels

A business will have set itself a target stock level of finished goods that it should achieve. This is calculated to satisfy the demand expected by the marketing department plans and based on what the production department thinks they can produce. If the stock level falls below this level then the productive efficiency has reduced since the output per worker has not met the planned requirements.

### Non-productive (“idle”) resources

Which resources are not in constant use in the business? Are employees often left with nothing to do? Are machines only used for part of available time? Too many idle resources are a common sign of inefficiency in production.

### Poor quality

There are many measures of poor quality – any of which could indicate a problem with efficiency:

- ▶ Customer complaints

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- ▶ Rejected finished goods identified by the quality control department
- ▶ Customer returns of defective goods

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