Animation 7.2

Demand for goods and services is rarely constant. It varies over time. This variation may be hourly, daily, weekly or seasonal. In this approach to managing capacity such variation in demand is not taken into account. Capacity is utilised at a constant rate.

This means that when demand is weak capacity is over producing, and when demand is strong it is under-producing. As a result, in manufacturing, capacity is typically planned to be at around the level of total aggregate demand.

This is especially the case if the product being made can be stored, so that items not sold during periods of slack demand are held in inventory until demand is strong. This is what many toy manufacturers do.

But there is a second reason for a level capacity strategy, namely that it may be very difficult to flex supply. For instance, the capacity of hotel is relatively fixed, Rooms cannot easily be added when demand is strong or removed during slack periods of demand.