4 What operations management does – Part 2 — Answers

Answers

4.1 Inventory is the stock a business holds (raw materials, part-finished and finished goods). A cost of too much: storage / insurance / money tied up / goods going out of date. (Any one.)

4.2 Advantage: low holding costs / less waste. Disadvantage: a late delivery can stop production. (One of each.)

4.3 $\frac{4000}{5000} \times 100\% = 80\%$.

4.4 No time for repairs or breakdowns; staff may tire and quality may fall; no spare capacity for extra orders. (Any one.)

4.5 The firm may run out of materials or finished goods, so it cannot meet orders and loses sales (and customers may go to rivals).

4.6 The factory's fixed costs (rent, machines) stay the same, but they are now spread over *more* units of output. So each unit carries a smaller share of the fixed costs, which lowers the average cost per unit.