**4.2 Analysing operational performance**

**Analysing operational performance: Activity**

**Should Vintage Motors expand capacity further?**

Vintage Motors (VM) made the decision to transfer production of its cars in 2002, from Birmingham to Southampton. They made this move to allow them to expand their production capacity as they had been working at on average between 98-100 per cent capacity utilisation and to be closer to the port there to lower transportation costs.They had had great success with their iconic British cars in the 1950-70s which became a very fashionable brand to own after being driven by celebrities and being featured in films. The company was associated with good quality and was making healthy returns. However production was slowed in the 1980-90s as the company became inefficient leaving their cars expensive compared with the variety of new foreign rivals available especially from Japan.

In 2000 they decided to invest heavily through borrowing to return the company to its earlier success. They redesigned their cars, invested in new equipment, training, promotion and created a new brand image linked to their old iconic British past. The investment was a great success and rejuvenated the company leading to unprecedented demand. They were able to charge premium prices and had waiting lists for their new models.

Since the new factory opened VM have continued to invest in expansion and machinery which has meant the capacity in 2014 is now up to 230,000 units a year. Producing 212,300 vehicles in 2014 and exporting to more than 90 countries across the globe, VM was the fourth-largest vehicle manufacturer in the UK. In 2015, due to growing demand particularly from emerging markets and China, VM released plans to launch a new range of cars, including an up-market convertible, across the globe. **Some of the operations managers are worried about the impacts this will have on capacity utilisation?**

The new models would push output up to 246,800 at a new maximum capacity of 250,000 cars and would require an investment of £500m. (This would push VM’s investment across all its UK operations up to more than £1.5 billion since 2000). The US is the 2nd biggest market outside of the UK, but VM have made no plans to shift production there.

**Task 1: Initial questions**

1. Calculate the capacity utilisation of Vintage Motors in the 1980-90s when it made and sold 98,000 cars whilst working at a maximum capacity of 130,000 cars.
2. Calculate what the capacity utilisation would be in 2014. (See case study for data.)
3. Calculate the capacity utilisation if the new proposal goes ahead in 2015. (See case study for data.)
4. List two methods VM might use to increase its capacity further. What risks are involved in doing so?
5. Explain how a shortage of supply impacted the price VM could charge for its cars after its re-launch.

**Task 2**

In your groups of four you are going to **debate** the issues listed below in relation to Vintage Motors. You must split into pairs and prepare an argument for either side of the argument.

1. VM should go ahead with the new proposal in 2015. Ensure you have discussed capacity utilisation.(Pair 1 are ‘for’ and pair 2 ‘against’.)
2. The US is the second biggest market for VM. Should they establish a factory there to be able to satisfy the high demand? (Pair 1 are ‘for’ and pair 2 ‘against’.)
3. Vintage Motors should be working at 100 per cent capacity utilisation to maximise its profit and satisfy the high demand that is there? (Pair 1 are ‘for’ and pair 2 ‘against’.)