Costing of zara

Finance

The factory machinery in Spain of ZARA, a major designer, manufacturer and retailer of fashionable clothing is reported to operate at only about 50% of its productive capability. There are quite a number of financial disadvantages that are likely to be experienced for operating below productive capacity. This entails that the company will not be in a position to generate enough revenue from its operations since it will be operating below capacity. This has negative implications on its financial position. This means that the company may not be in a position to maximise its profits from its operations since it will be operating below capacity.

Essentially, the main purpose of business is to generate profits. When the company is in a position to generate more revenue from its operations, that is if it is operating to capacity, it is able to expand its operations. Growth of business in this particular case entails that the company can employ more people which in turn helps to generate more revenue. This is very important in as far as sustainability in the company’s long term operations are concerned.

It can also be noted that for Zara to operate below capacity, it is a strong disadvantage to its financial performance. Such companies invest large sums of money to set up manufacturing plants and they must operate above capacity to recover the money that has been invested in the first place. When the company has recovered the money that has been invested, it is in a position to generate surplus revenue commonly known as profit. Any viable company should be in a position to generate profits from its operations. This can help the company to operate viably in the long run.

The other disadvantage of operating below capacity is that the company may face problems in terms of meeting the maintenance costs of the equipment used in the manufacturing of fashionable clothes. A company that is operating below capacity is not able to meet all its operational costs as a result of the fact that it would be generating limited revenue. This means that the company may be forced to borrow from other financial institutions in order to sustain its operations in the event that the equipment has broken down. The company should be in a position to buy spares and meet other operational costs in the event that it has encountered some problems in its operations. This can only be possible if it is operating above capacity.

To a certain extent, the only advantage that can be derived by Zara for operating below capacity is that it is in a position to produce goods that suit the demand at a particular time. This means that there are no challenges of stock pile up in the form of inventory of the goods awaiting delivery to different retail outlets. In this case, the nature of demand will be responsible for determining the amount of goods produced by the company at any given time. Chances of incurring losses are minimised if the company is able to produce goods that meet the market demand. The other advantage is that the company manage its operations since it will be able to employ a sizable number of workers that is easy to monitor. In some cases, a large workforce is difficult to control especially in the manufacturing industry.

Over and above, it can be concluded that operating below capacity is a disadvantage to the company itself. The main goal of business is profit maximisation through capacity utilisation of the resources available. However, this is not the case in terms of the operations of Zara which is operating below capacity.