

- LESS FLEXIBILITY: means that firms may not continue to meet the changing needs of their customers.

Choosing the optimal mix of resources: capital and labour intensity

- Four resources used to produce outputs through the transformation process are: enterprise; land; labour and capital.
- Enterprise and land tend to be unique whereas labour and capital tend to be interchangeable.

Factors influencing the choice between capital-intensive and labour-intensive production

The method of production

- A mass production on a large scale requires capital equipment i.e. machinery.
 - Large scale production usually means that a firm will choose capital-intensive methods.
- If products are specifically designed for the consumer, labour-intensive methods are more likely.
 - The success of a business will depend more on the workers than the machinery.

The skills and efficiency of the factors of production

- A business that depends on the skill of workers is more likely to use labour-intensive methods.
- If machinery/other forms of capital can greatly lower unit costs, or produce a more consistent, high quality product, then capital-intensive methods will be employed.

Relative costs of labour and capital

- Labour is relatively expensive in Western Europe as compared to other parts of the world.
 - As a result, firms will benefit from replacing labour with capital equipment.
- In other parts of the world, labour is much cheaper to use, so production lines are more labour intensive.
- Another consideration is the reliability of labour and capital.
 - Unreliable equipment may encourage firms to choose a labour-intensive production.

Size and financial position of a business

- It may not be possible for small businesses with cash flow difficulties to purchase the equipment needed for capital-intensive methods.
 - As a consequence, these firms will choose labour-intensive production.

The product or service

- The more standardised a product, the greater the advantages of capital-intensive production because machinery can produce vast quantities at low unit costs.

The customer

- If customers want personal contact, this may limit the scope for capital intensity.