

DP BUSINESS MANAGEMENT - UNIT 1 INTRODUCTION TO BUSINESS MANAGEMENT  
 1.5 GROWTH AND EVOLUTION  
 ECONOMIES / DISECONOMIES OF SCALE

<b>Economies of scale</b>		
Average unit cost of production <u>decreases</u> as the level of output increases in the long run		
<b>Internal Economies of scale</b>		
	<b>Definition</b>	<b>Example</b>
<b>Purchasing economies of scale</b>		
<b>Technical economies of scale</b>		
<b>Marketing economies of scale:</b>		
<b>Managerial economies of scale:</b>		
<b>Financial economies of scale:</b>		
<b>Specialization Economies of scale</b>		
<b>Risk-bearing Economies of scale</b>		

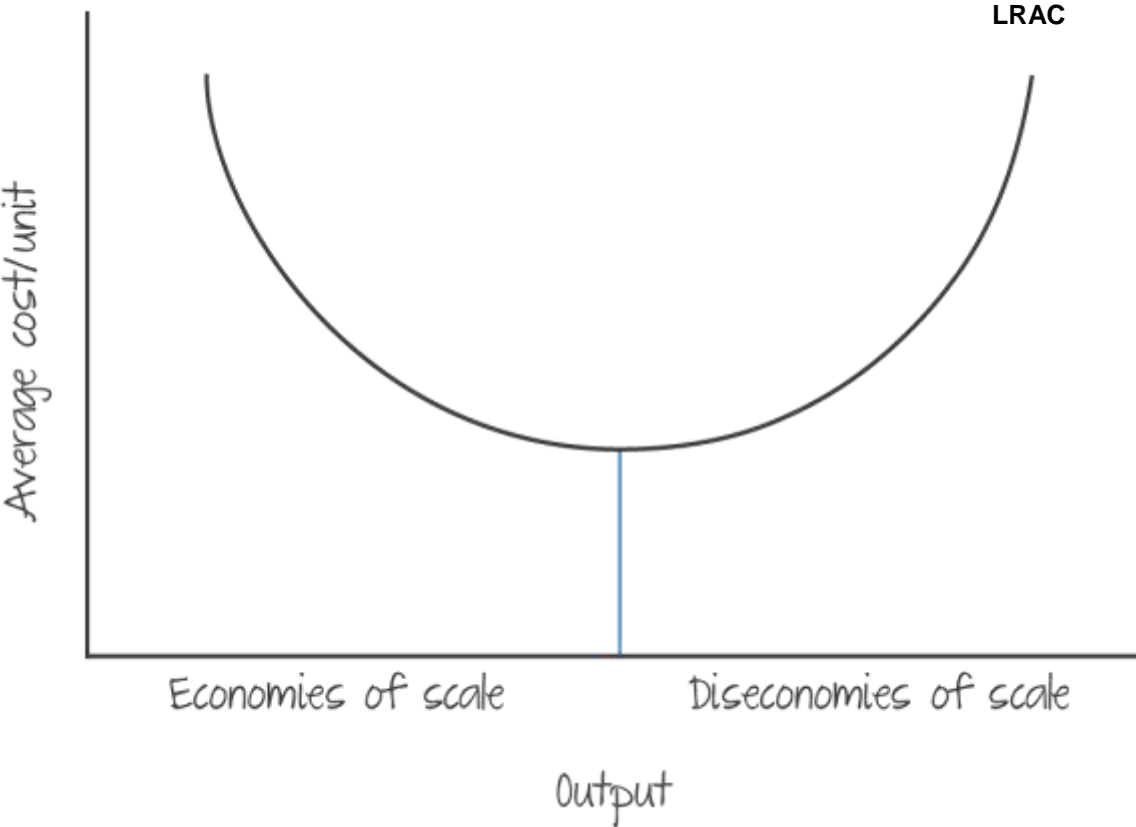
**Diseconomies of scale**

Average unit cost of production increases as the level of output increases. This increase in average unit cost is usually explained by the difficulty of managing very large operations.

**Internal diseconomies of scale**

	<b>Explanation</b>
<b>Managerial issues</b>	
<b>Poorer working Relationships</b>	
<b>Outsized organization</b>	
<b>Bureaucracy</b>	

Figure 1. Graph showing economies and diseconomies of scale.



**EXTERNAL ECONOMIES OF SCALE**

**Technological progress**

**Improved transportation network**

**Skilled Labour**

**Regional Specialization**

## **EXTERNAL ECONOMIES OF SCALE**

**Higher rents**

**Higher pay and rewards**

**Traffic Congestion**

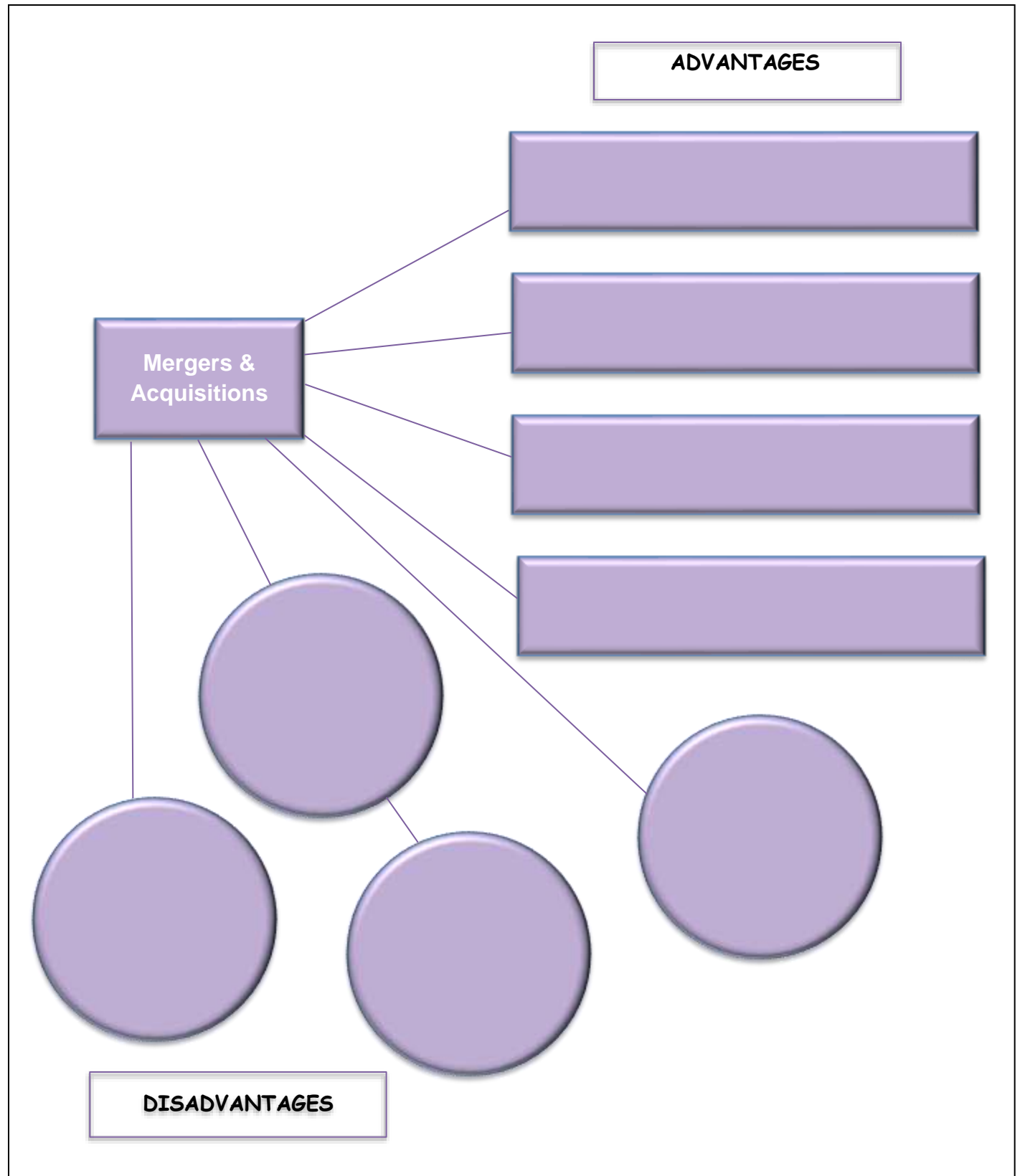
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 1.5 GROWTH AND EVOLUTION  
 EXTERNAL VS. INTERNAL GROWTH METHODS

Growth Method	Definition		
<b>External Growth</b>			
<b>Mergers and Acquisitions</b>			
<u>Vertical M&amp;A</u>	<u>Forward vertical M&amp;A</u>	<u>Backward Vertical M&amp;A</u>	<u>Conglomerate M&amp;A(Diversification)</u>
<b>Takeovers</b>			
<b>Joint ventures</b>			
<b>Strategic alliances</b>			
<b>Franchising</b>			

Advantages of external growth	Disadvantages of external growth
<b>Internal (Organic) Growth</b>	
<p>Examples:</p> <ul style="list-style-type: none"><li>• Hiring more employees</li><li>• Developing new products</li><li>• Improving marketing</li><li>•</li><li>•</li><li>•</li><li>•</li><li>•</li></ul>	

<b>Advantages of Internal Growth</b>	<b>Disadvantages of Internal growth</b>





# TAKEOVERS

*Advantages*

*Disadvantages*

DP BUSINESS MANAGEMENT - UNIT 1 BUSINESS ORGANIZATION AND ENVIRONMENT  
 1.5 GROWTH AND EVOLUTION  
 MERITS OF SMALL VS. LARGE ORGANIZATIONS

Factor	Small organisations	Large organisations
Economies of scale		
Lower prices & Variety of choice	Small firms are not able to offer customer greater discount as they don't achieve economies of scale	Large firms are able to offer customers greater discount through their ability to enjoy economies of scale
Brand reputation		
Financial risk		
Personalized services		
Competitors		