
Growth

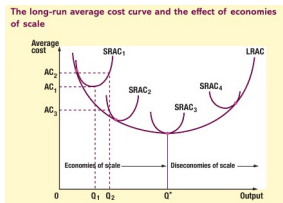
2017-18

GROWTH

- ▶ *Growth of businesses*
 - ▶ higher revenues
 - ▶ lower unit costs
 - ▶ larger market share
- *economies of scale and higher market power*

ECONOMIES OF SCALE

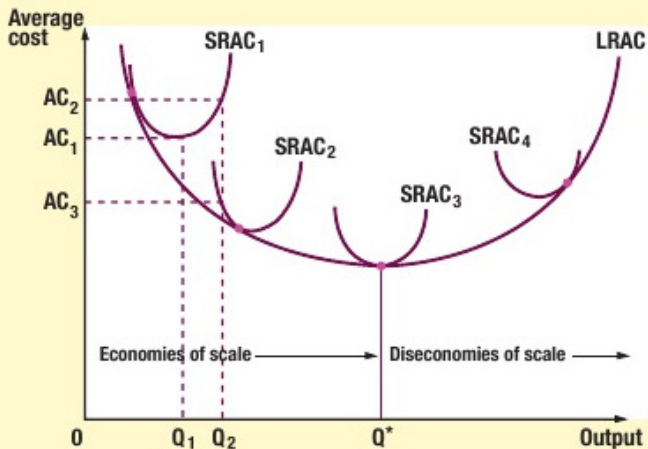
- ▶ *economies of scale*: in the long run businesses can:
 - ▶ build new factories
 - ▶ purchase new machinery→ average cost of production ↓
- ▶ $SRAC_1$: short-run cost of the small firm
- ▶ $SRAC_2$: short-run cost of the expanded firm
- ▶ $SRAC_3$ short-run cost of the *minimum efficient scale plant*



Law of diminishing returns: A concept in economics that if one factor of production (number of workers, for example) is increased while other factors (machines and workspace, for example) are held constant, the output per unit of the variable factor will eventually diminish.

ECONOMIES OF SCALE

The long-run average cost curve and the effect of economies of scale



INTERNAL ECONOMIES OF SCALE

Internal economies of scale: benefits of growth that arise *within* the firm

- ▶ *Purchasing and marketing economies*:
 - ▶ buying components in bulk,
 - ▶ administration costs will not rise with purchased amount
- ▶ *Technical economies*: larger plants are more efficient (e.g., capital costs, running costs)
 - ▶ *principle of increased dimension*: doubling of output does not mean doubling of costs
 - ▶ *indivisibility*: firms cannot use a proportion of a machine (e.g., computer)
 - ▶ *law of multiples*: combining different machines/inputs to run at full capacity
- ▶ *Specialisation and managerial economies*: as the firm grows it can afford *specialist managers*
- ▶ *Financial economies*: access to financing
- ▶ *Risk-bearing economies*: diversification to reduce risk (e.g., into different sectors, R & D)

EXTERNAL ECONOMIES OF SCALE

External economies of scale: reductions in cost which any business in an industry might enjoy as the industry grows

- ▶ *Labour*: concentration of firms → build-up of labour force
- ▶ *Ancillary and commercial services*: an established and growing industry → attracts smaller firms (e.g., restaurants, ...)
- ▶ *Co-operation*: firms might join forces (e.g., common R & D)
- ▶ *Disintegration*: production is broken up so that more specialisation can take place

INCREASED MARKET POWER

growing business → dominance in the market

- ▶ *Customers*: dominant business
 - ▶ will charge *higher prices*
 - ▶ cut *innovation* costs
 - ▶ stop developing *new products*
- ▶ *Suppliers*: dominant business
 - ▶ may impose lower prices on the supplier
 - ▶ example: monopsony, supermarket chains

→ may attract the attention of the *authorities*

INCREASED MARKET SHARE AND BRAND RECOGNITION

growing business

→ larger market share

→ greater brand recognition

Strong brands may:

- ▶ charge *higher prices*
- ▶ *differentiate* the product from those of the rivals
- ▶ create *customer loyalty*
- ▶ ...
- ▶ *launch new products* more easily
- ▶ attract media attention

INCREASED PROFITABILITY

a growing business will:

- ▶ increase its *profitability*
- ▶ may use profit for *investment* and *innovation*
- ▶ investment and innovation will allow the business to *launch new products*

DISECONOMIES OF SCALE

- ▶ *Internal diseconomies of scale: difficulties of managing large businesses*
 - ▶ *communication and coordination* gets more difficult
 - ▶ *coordination* of people and capital gets difficult
 - ▶ *motivation* of employees may fall
 - ▶ *technical diseconomies*
- ▶ *External diseconomies of scale:*
 - ▶ *overcrowding* in industrial areas
 - ▶ *congestion*

INTERNAL COMMUNICATION

OVERTRADING

Overtrading: occurs when business tries to fund a large volume of new business *without sufficient resources*

Overtrading occurs when business:

- ▶ does not have enough capital (*undercapitalised*)
- ▶ offers too much *trade credit* to customers
- ▶ is operating with *slim profit margins*

KEY TERMS

- ▶ **Diseconomies of scale:** rising long-run average costs as a business expands beyond its minimum efficient scale
- ▶ **Economies of scale:** the reductions in average costs enjoyed by a business as output increases
- ▶ **External economies of scale:** the cost reductions available to all businesses as the industry grows
- ▶ **Internal economies of scale:** the cost reductions enjoyed by a single business as it grows
- ▶ **Minimum efficient scale:** the output that minimises long-run average costs

KEY TERMS

REVISION OF CHAPTER 9

- ▶ **Consumer durables:** goods that can be used repeatedly over a period of time, such as cars and household appliances
- ▶ **Design mix:** the range of features that are important when designing a product
- ▶ **Ergonomics:** the study of how people interact with their environment and the equipment they use often in the workplace
- ▶ **Ethical sourcing:** using materials, components and services from suppliers that respect the environment, treat their workforce well and generally trade with integrity
- ▶ **Product design:** the process of creating a new product or service

KEY TERMS

REVISION OF CHAPTER 9

- ▶ **Recycling:** making use of materials that have been discarded as waste
- ▶ **Resource depletion:** the using up of natural resources
- ▶ **Waste minimisation:** reducing the quantity of resources that are discarded in the production process

KEY TERMS

REVISION OF CHAPTER 10

- ▶ **Above-the-line promotion:** Placing adverts using the media
- ▶ **Advertising:** Communication between a business and its customers where images are placed in the media to encourage the purchase of products
- ▶ **Below-the-line promotion:** Any promotion that does not involve using the media
- ▶ **Emotional branding:** The practice of using the emotions of a consumer to build a brand

KEY TERMS

REVISION OF CHAPTER 10

- ▶ **Generic brands:** Products that only contain the name of the product category rather than the company or product name
- ▶ **Manufacturer brands:** Brands created by the producers of goods or services
- ▶ **Marketing mix:** The elements of a business's marketing that are designed to meet the needs of customers. The four elements are often called the '4Ps' product, price, promotion and place
- ▶ **Merchandising:** A promotion specifically at the point of sale of a product

KEY TERMS

REVISION OF CHAPTER 10

- ▶ **Own-label, distributor or private brands:** Products that are manufactured for wholesalers or retailers by other businesses
- ▶ **Point of sale:** Any point where a consumer buys a product
- ▶ **Promotion:** An attempt to obtain and retain customers by drawing their attention to a firm or its products
- ▶ **Public relations:** An organisation's attempt to communicate with interested parties
- ▶ **Sales promotions:** Methods of promoting products in the short term to boost sales
- ▶ **Sponsorship:** Making a financial contribution to an event in return for publicity
- ▶ **Viral marketing:** Any strategy that encourages people to pass on messages to others about a product or a business electronically