**How do firms grow in size?**

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|  | **What is it?** | **Example** |
| Internal Growth | When a firm increases its output on its own | The firm could:   * Take on more workers * Hire bigger premises * Buy new machines * Buy in more supplies |
| External Growth | When a firm increases its output by joining with another firm | Cheese factory buys a dairy farm  There are different types of mergers/integration- see below |

**Different types of merger bring different economic advantages**

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| **Type of Merger** | **Potential benefits to the firm** |
| Horizontal Integration | * Increase market share * Reduces competition * Take the best bits from the two companies |
| Vertical  Integration | * Can take control of suppliers- ensure that they get resources/inputs at cost price * Can prevent rivals from having access to resources |

**What are economies of scale?**

Economies of scale are the **cost advantages** that a business can exploit by**expanding the scale of production.** This may take place through internal growth or external growth (horizontal or vertical integration). *Thus money is saved / generated by the company getting big*ger.

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| **Type of Economies of Scale** | **Explanation** |
| **Financial Economies of Scale** | Large firms can benefit from cheaper loans and wider sources of cheap finance (investment from shareholders) |
| **Marketing Economies of Scale** | Large firms benefit from having wider, more diversified product range. This means that they are better able to withstand the risk of a fall in demand for one good or service |
| **Technical Economies of Scale** | Large firms can employ specialist labour and afford the latest most advanced technological equipment which can increase productivity and reduce average costs |
| **Managerial Economies of Scale** | Large firms have the money/resources to attract the most productive/efficient/specialist managers who make the most effective business decisions and increase efficiency over time. |
| **Purchasing Economies of Scale** | Large firms can attract specialist buyers who don’t waste money buying stock that will not sell. They also have specialist sellers/marketing staff who ensure that goods will sell. Big firms benefit significantly from being able to “buy in bulk” |