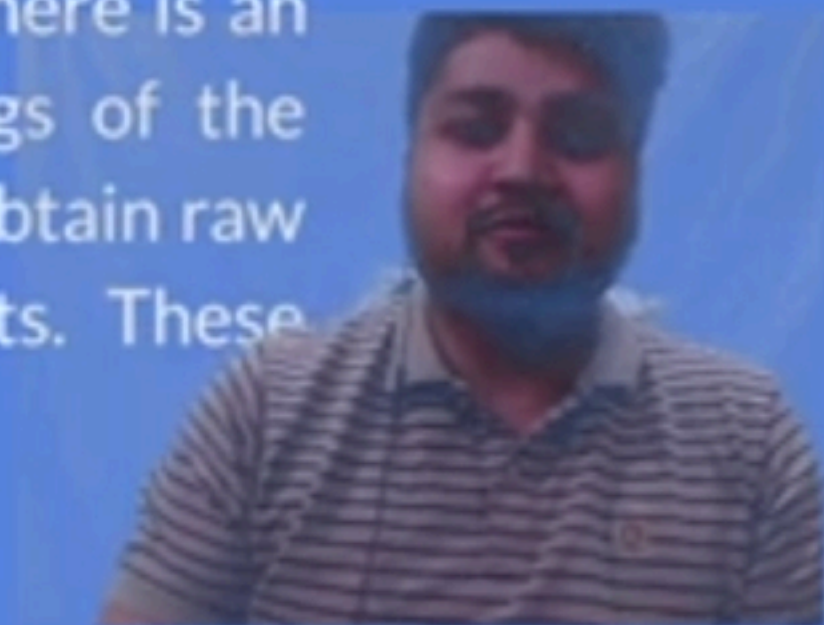


ECONOMIES OF SCALE

- Economies of scale are defined as the cost advantages that an organization can achieve by expanding its production in the long run.
- In other words, these are the advantages of large scale production of the organization. The cost advantages are achieved in the form of lower average costs per unit.
- It is a long term concept. Economies of scale are achieved when there is an increase in the sales of an organization. As a result, the savings of the organization increases, which further enables the organization to obtain raw materials in bulk. This helps the organization to enjoy discounts. These benefits are called as economies of scale.



TYPES OF ECONOMIES OF SCALE

- INTERNAL ECONOMIES : Refer to real economies which arise from the expansion of the plant size of the organization. These economies arise from the growth of the organization itself.
- EXTERNAL ECONOMIES: Occur outside the organization. These economies occur within the industries which benefit organizations. When an industry expands, organizations may benefit from better transportation network, infrastructure, and facilities. This helps in decreasing the cost of an organization.



INTERNAL ECONOMIES

- ❖ TECHNICAL
- ❖ MANAGERIAL
- ❖ MARKETING
- ❖ FINANCIAL
- ❖ COMMERCIAL



EXTERNAL ECONOMIES

- ❖ Economies of Concentration: Refer to economies that arise from the availability of skilled labor, better credit, and transportation facilities.
- ❖ Economies of Information: Imply advantages that are derived from publication related to trade and business. The central research institutions are the source of information for organizations.
- ❖ Economies of Disintegration: Refer to the economies that arise when organizations split their processes into different processes.



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DISECONOMIES OF SCALE

Diseconomies of scale occur when the long run average costs of the organization increases. It may happen when an organization grows excessively large. In other words, the diseconomies of scale cause larger organizations to produce goods and services at increased costs.



TYPES OF ECONOMIES OF SCALE

- INTERNAL DISECONOMIES : Refer to diseconomies that raise the cost of production of an organization. The main factors that influence the cost of production of an organization include the lack of decision, supervision, and technical difficulties.
- EXTERNAL DISECONOMIES: Refer to diseconomies that limit the expansion of an organization or industry. The factors that act as a restraint to expansion include increased cost of production, increase in the price of raw materials, and low supply of skilled laborer.



REASONS BEHIND DISECONOMIES

- POOR COMMUNICATION
- LACK OF MOTIVATION
- LOSS OF CONTROL
- CANNIBALIZATION

