Economies and diseconomies of scale

Economies and Diseconomies of Scale A case for McDonalds & Movie Theaters By Michele Tarrence Econ 202 Economies of scale are defined as ' forces that reduce a firm's average cost as scale of operation increases in the long run. The opposite of this would be diseconomies of scale, meaning ' forces that may eventually increase a firms average cost as the scale of operation increases in the long run. Most every company has both the economies and diseconomies of scale that can be analyzed.

In the following paragraphs I will tell of some of these scales in both movie theaters and the ever popular McDonalds. McDonalds is the 8th most valuable brands in the world. They have approximately 32, 000 restaurants located in over 120 countries. Founded in 1955 and sold in 1961 as a franchise for $2. 7 million. Now the company is just about on every corner you turn on. McDonalds has taken much criticism over the years for things such as promoting unhealthy eating, robbing the poor, damaging the environment, and many more.

There are also those that praise the company for its many efforts that have enhanced the economy. McDonalds faces many issues every day. Trying to make 32, 000 restaurants uniform is not an easy task. Especially when you are spread out among many countries that have different cultures and religions and /or laws that need to be respected. For instance, in Saudi Arabia, they have to close five times a day for prayer because they are a Muslim society. India is another one that has laws to be followed.

They do not use beef for their burgers because they worship cows in their country. Instead they use mutton. This company has brought about some positive changes to a host of countries. They are considered to be an agent of economic development. (Book-survey of economy). McDonalds has provided many jobs to people, entrepreneur opportunities, they have created a very large amount of suppliers, promote exports and they also create a very high standard for their productivity and service standards. Development at the plant or restaurant level specializes in labor and machines.

Executives at the firm level have many years of experience that is relayed to the new management in training to help all restaurants stay uniform. They can buy in bulk in order to keep it at a lower cost forcing their competition to stay at lower prices. They choose suppliers that can mass produce good quality food that turns out a good product that the consumers enjoy for both the price and taste. They are able to share advertising and research with the 32, 000 restaurants in order to meet markets all around the world.

They have advertised at such places as the Olympics and many other events reaching hundreds of thousands of people. Some of the diseconomies may be that they have such a large production and operation that it can be hard to stay uniform for such a production. They must also keep their menu uniform throughout the world and yet they must accommodate the country and culture that they are located in. The suppliers cannot be located in an area that may be subject to a possible drought or other places that could be exposed to supernatural weather.

This would drive the price of the product up making it less profitable. McDonalds spends a lot of time in research, but some of these research projects have actually taken years to develop which in turn cost money making it harder to recoup the money spent. For example, it took McDonalds over 7 years to develop chicken nuggets and yet to accommodate customer demand and eating habits, it only took 1 year to develop the Grilled Chicken Wrap. Similarly, the movie industry is still a great pass time for people. Movie theaters started with one screen per theater.

Now days, we have moved into what can be called Megaplexes which are movie theaters that can have up to 30 constructed screens. Many movie suppliers do not like this because they cannot provide the theaters with movies to fill their theaters. Most movie suppliers do not like more than 15 screens per theater. Movie theaters make half their money on the concession stands within the complex. If the owners of the theater stagger the movies it does a couple of things. It elevates the congestions that might occur at the beginning of the movie.

Some Suppliers of these movies limit the supply of popular films to the megaplexes. The owners of the megaplexes may not have movies to fill the constructed screens, so they have resorted to holding live sport events on the big screen. This would be some of their diseconomy of scale. Some megaplexes do not good great foot traffic due to their location but yet there are some that are located at shopping malls which has much more foot traffic. Another thing that is hurting the movie industry is the increase home theaters that people are building in their homes.

The purchase of home theater equipment has increased over the years. Consumers also have certain times that are peak times that they like to go to the movies. Creating a shorter time to show the movies and limited time slots for movies. The economy of Scale is different when the movie theater has less constructed screens. If a theater has only a couple of screens they only have to have one person to sell the tickets and only a couple of people running the concession stand. If the movies are staggered there is less congestion and the possibility of more show times creating more revenue.

If the theater has less screens they can still rely on that one person to sell the tickets. There is only one lobby , one set of restrooms, they can advertise more and they can spread the cost over more films. They can also get have better distributor deals also creating more revenue. In conclusion, there are many economies and diseconomies to these entirely different industries that have many obstacles. McDonald's corners the market on fast food and yet keeps uniformity throughout the massive chain of 32, 000 restaurants.

The movie theater industry is up against the ever growing home theaters yet still find ways to stay innovated. Bibliography McDonalds – The Times 100 Edition 8 researched www. tt100. biz Mohan, Lalit (Nov 2008) " Case of McDonalds – An Economic Analysis" researched at www. scrbd. com/doc/14573913/mcdonalds-20 Tucker, Irvin B " Survey of Economics" Researched www. book. google. com McEachern, William A (2010) Microeconomics Tschoegl Adrian E (2007) Global Economic Journal " Mcdonalds- Much Maligned But an engine of economic development" Volume 7 Issue 4