

Diseconomies of scale essay example

[Business](#), [Company](#)



Oldsmobile was an American automobile brand that was being produced by General Motors. It had been in existence for 107 years before it collapsed, during that period, it produced 35.2 million cars, some of which were being built at its factory in Lansing, Michigan. The company had produced many brands of vehicles which were very competitive. The Oldsmobile company closed in 2004 and hinted at the consolidation of GM brands of vehicles. General Motors was running the advertisement and distribution of the Oldsmobile vehicles. Following many years of success, Oldsmobile sales quickly dropped from the late 1980s to early 1990s. The brand had lost its competitive edge in the market due to stiff competition from other GM divisions and new upscale imports such as Lexus and Infiniti (Rick and Greg 46). Despite the dwindling sales, GM continued to use Oldsmobile in testing new technology and showcasing future designs. Oldsmobile distributed its cars via GM sales channels. GM has a commercial presence in more than 35 countries that serve as outlets for its manufactured cars and trucks. After many years of success and expansion, Oldsmobile came to closure due to the effects of diseconomy of scale (Senter, Richard, and McManus 76). The company had become too large that it had formidable costs of control. These costs arose from the extended bureaucracy in its management and principal agent problems that ensued led to lower productivity. Cannibalism effects also affected the company. This arises when a big company's product starts competing with each other. Other GM's division such as Pontiac and Chevrolet stole Oldsmobile customers too. As a result, Oldsmobiles became closed in 2004. The self competition wastes a lot of resources that can be used in research, development or competition with other firms. Oldsmobile

further suffered from duplication of efforts and high communication costs (Guilford 3).

Work cited

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