Large firms gain a large advantage because of economies of scale essay

Large firms gain many advantages over small firms for many different reasons. Firstly, there is bulk buying.

Because they have a large capital and cash flow, they can afford to spend more money on things. As they can spend more money, they can buy more of one type of good. Since goods are packaged, shipped and processed, money is used for every group of products. When these products are bought in large groups then the cost goes down because the distribution and production costs are spread across many goods. This is known as ‘ bulk buying’. Managerial economies of scale are where there are more managers in a company.

As well as having large amounts of money, large companies also employ large amounts of people. Many of these people are therefore managers and people with managerial-type jobs. Because there are more managers, the company is organised much better. There are better ideas, the personnel department benefits due to experienced people and ideas are shared considerably better. Possible the key area of economies of scale is the labour economies of scale.

Larger firms employ more people. These people can work together better. The production changes from job or batch to more of a line or flow process, where each person, say, instead of making a door, tightens 3 nuts. This, although tedious and boring, is much more economical to the company as they can produce many times more products. As it can be so monotonous, companies often rotate the workforce as there are no special jobs that only one person can do.

Another type of labour economies of scale is specialisation. This is where people are specially trained to do one job. A good example of this is a hospital. Here, you have people trained in one aspect of medicine. These specially trained people will be faster, more accurate, more skilled and able to produce far faster than untrained people. Large firms have lots of money.

They have access to public money in the form of shares and they can borrow more money than small firms can from banks. This advantage is partly due to the fact that they have huge sums of money in the first place and also due to the fact that other businesses and people will trust them to be more stable and secure. As more money is borrowed from the banks, the interest rates go down. This in itself is due to a form of buying economies or scale. Risk bearing economies of scale help large firms in two main ways.

Firstly, as the company is very big, it can produce many products. If one product fails due to the manufacturing process going down or changes in the economy or law then the firm still has many other products to sell, so there is less risk. An example would be a baker, who produces just bread, and a large food production company, who would produce all types of food. If there were a sudden grain shortage, the baker would surely go out of business however the large firm would only loose a small percentage of its sales. The second type of risk bearing economies of scale is the way large firms have many markets; these are tied into the products. If one market changes or disappears completely then there are still many other markets to which the company sells their produce.

This is a great advantage because it is very difficult for all markets to change at one time. As one market falls, others may rise. Technical economies of scale are all to do with maximising efficiency. Where many resources are needed to produce a product, a small firm will only use these resources to the level of the lowest resource. Large firms, having more money, are able to buy more of the lowest resource, or use it more efficiently.

For example, if a small firm produces cars and at the end of the production process one person has to check each car for five hours then only one car can be produced every five hours. Large firms have the advantage that they can afford more production and labour. They may employ five people to check the cars, so the bottleneck is eliminated and a car can be produced every hour. In conclusion, large firms have many different types of economies of scale. These enable the companies to produce more goods for lower prices. It also enables them to have less risk and better working conditions.

All these factors maximise efficiency and the companies profits.