

This text is from <http://www.bbc.co.uk/education/guides/zgvb9j6/video>

## Bitesize GCSE BUSINESS STUDIES

### ECONOMIES OF SCALE

#### **DEBORAH MEADEN- ENTREPRENEUR**

Well I'm kind of famous for saying that big business sometimes needs to remember that actually its small business only bigger. Because actually we're all doing the same thing. But the truth of the matter is that often as a business grows, it can sort of that advantage of economies of scale. So for instance you know one person's sitting in an office on their own, they are paying rents and rates and electricity and the phone bills and everything that goes with it. Well night follows day. If you get a second person in, turnovers probably gone up, but you might have more salaries but you have no more electricity, no more rent and rates. And that's the start of economies of scale.

#### **LORD ALAN SUGAR - ENTREPRENEUR**

The larger a business is, particularly manufacturing or in buying and selling. Of course they are going to get the benefits of economy of scale because the bigger the business the more volume you're gonna produce. And therefore you can actually bargain more with suppliers. But at the same time you can become far more competitive. Which will generate more sales for you.

#### **SAIRA KHAN- SKINCARE ENTREPRENEUR**

Economies of scale says like a really scary word but for me, what it means for my business is about the minimum order quantities that I can actually buy, at a certain time. The more you can, buy the cheaper it is, the more profit you're going to make.

#### **NICOLA VANE- PHONE SOCK ENTREPRENEUR**

Big businesses are able to bulk buy and benefit from economies of scale. Smaller businesses find it hard to compete with the prices that big businesses might offer. We batch produce our products whereas bigger businesses might mass produce them and benefit from the cheaper cost in doing that.

#### **HUGH PYM - BBC CHIEF ECONOMICS CORRESPONDENT**

When a company starts up making a product, of some description. Maybe making clothing, then they have to invest in machinery. And that's quite expensive to actually bring the machinery in and start making enough to get going. But as they expand they can maybe get the existing machinery to produce more clothing and to maybe increase the volume of their output of different clothes. They only need a small amount of extra machinery to produce a lot more. So the larger they get, the more efficient they get. They can make their existing machinery to work better. So economies of scale is really all about the size of a company and the volume of production. Meaning that the whole process is more efficient.

#### **DR PAUL THOMAS- TRUFFLE ENTREPRENEUR**

In terms of economies of scale in our business we see a very clear link between how big we are and profitability. Because we have a number of different sites producing truffles. The more sites we get the more research we're generating, the more data we're gathering. So ultimately the more productive each site becomes.

**BEN WALLACE- MARKETING, GOOGLE UK**

We're a company that has grown in eleven years from being kind of, two or three people to a company that employees thousands of people across the world.

Obviously as a business grows and develops offices in other countries, you grow apart as a company. But we try and foster an atmosphere of being able to contact anyone that you want, in the company. And being able to kind of learn from them. And communicate with them.

**DEBORAH MEADEN – ENTREPRENEUR**

What tends to happen with businesses is businesses sort of start small and then they grow, and they get terribly efficient. But they actually get to a stage where they start getting diseconomy of scale. So in fact what they now doing, they've had to scale up for the next phase and suddenly they're back here again in terms of economies of scale because they've had to take. They've taken bigger premises and they're now paying the rent. So businesses kind of lurch between this getting terribly efficient and going back and getting terribly efficient and going back. So I don't think it's a small thing versus big business thing. But I do think it's part of the business process.

**WITH THANKS TO OUR CONTRIBUTORS**  
**END OF CLIP**