Lesson 6: Expanding a business

KNOWLEDGE ORGANISER

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🎯 Learning goals

- ✓ Explain organic and external growth and their methods
- ✓ Explain economies and diseconomies of scale
- ✓ Describe purchasing and technical economies of scale
- ✓ Calculate and interpret average unit cost

🔑 Key words

Organic growth Expansion using the business's own resources.

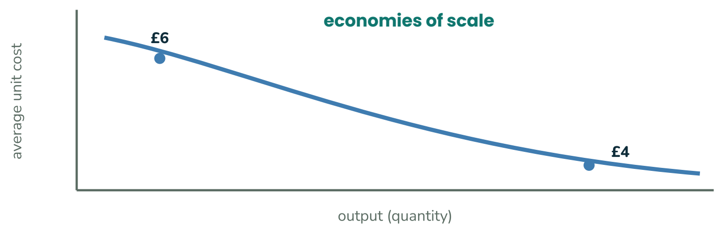
External growth Expansion by merging with or taking over another business.

Economies of scale Cost advantages from increasing output.

Diseconomies of scale Higher costs from being too big (poor communication, coordination, motivation).

Average unit cost Total cost ÷ quantity produced.

📘 What you need to know



As output rises, average unit cost can fall — economies of scale.

1. Organic and external growth

Organic growth means expanding using the business's **own resources** — for example **opening new stores, e-commerce** or franchising. It is slower but lower-risk. External growth means expanding by **merging** with, or **taking over**, another business. It is faster but riskier and more expensive.

> *"Organic growth is steady and lower-risk; external growth is fast but expensive and risky."*

2. Economies of scale

As a business grows and produces more, its **average unit cost** (cost per item) often **falls** — these savings are economies of scale. Two types you must know: purchasing economies (lower unit costs from **buying in bulk**) and technical economies (lower costs from using **specialised machinery**). To measure this, average unit cost = total cost ÷ quantity produced.

3. Diseconomies of scale

Growth is not always good. If a business gets **too big**, average unit cost can start to **rise** again — these are diseconomies of scale, caused by **poor communication, coordination problems and reduced staff motivation**. So growth has an **advantage** (economies of scale) and a **drawback** (diseconomies of scale).

✅ Test yourself

Cover the answers below, answer Q45–Q53, then check.

Q45 What is organic growth?

Q46 Give two methods of organic growth.

Q47 What is external growth?

Q48 One advantage and one disadvantage of growth.

Q49 What are economies of scale?

Q50 What are purchasing economies of scale?

Q51 What are technical economies of scale?

Q52 What are diseconomies of scale?

Q53 How do you calculate average unit cost?

ANSWERS

A45 Expansion using the business's own resources.

A46 Opening new stores; e-commerce.

A47 Expansion by merging with or taking over another business.

A48 Advantage: economies of scale. Disadvantage: diseconomies of scale.

A49 Cost advantages from increasing output.

A50 Lower unit costs from buying in bulk.

A51 Lower costs from using specialised machinery.

A52 Increased costs due to poor communication, coordination, or motivation.

A53 Total cost ÷ quantity produced.