**Apple- Economies and Diseconomies of Scale**

Posted on [September 11, 2012](https://fayblack.wordpress.com/2012/09/11/economies-of-scale-apple/) by [fayblack](https://fayblack.wordpress.com/author/fayblack/)

Economies of Scale are the cost advantages exploited by expanding the scale of production in the long run. The effect of this is to reduce long run average costs over a range of output.

A company can benefit from both internal and external economies of scale. Internal Economies of Scale are the productivity benefits that the individual firm experiences as it grows in size. External Economies of Scale are the productivity benefits that the whole industry (all firms) experience as it grows in size.

The Types of Economies of scale that Apple could face are: Technical Economies of Scale; Due to the fact that Apple produces so many devices they can maximise the amount of goods produced to maximise their economies of scale and lower average cost per unit.

Apple’s size and the fact that most of Apples products e.g. iphone, ipad share the same components the company can buy parts such as processing chips and display screens at lower prices due to buying in bulk benefiting from Marketing Economies of scale. Any company that wants to make a tablet computer that matches the ipad’s low starting price of $499 would have to endure higher production costs. Due to this Apple has 70% of the tablet computer market.

Furthermore due to the large amount of products being produced by Apple the research and development undertaken by the company is essentially free, another example of technical economies of scale.

Another example of Marketing Economies of Scale that Apple benefits from is the large amount of advertising the company has; also due to the size of the firm advertising one product essentially advertises all other products produced by apple meaning that the cost of advertising is much lower than it would be for a smaller firm.

Apple can also benefit from financial economies of scale as new competition enters the market Apple can use their economies of scale to lower the prices of their products that competition cannot match.

The Diseconomies of scale that Apple may suffer from could be the curse of the company getting to big. Apple worries that in the absence of Steve Jobs they may no longer benefit from Managerial economies of scale and may struggle to maintain the innovation and excellence that has propelled it to such a position.

External diseconomies of scale out of the control of Apple are also an issue. As apple gets bigger and bigger there are sure to be growing calls for its power to be curtailed, For example there has been rumours of a Microsoft- style anti-trust investigation which would examine Apple’s policy of requiring software developers who make apps for its products to use apples own programming tools. More recently there have been stories about Publishers confronting Apple over their efforts to control the price of e-books.