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Using appropriate examples, discuss whether firms operating in Singapore should aim to become big to be competitive.

In the economy, big firms are generally more competitive because they enjoy greater cost savings from the larger output. Nevertheless, whether the firm should aim to become big to be competitive depends heavily on the market the firm wishes to target. In Singapore, there is a mix of firms, big and small, all of which are competitive in their respective market segments. The questions we have to tackle here is whether the market is such that the big size of the firm necessarily translate to competitiveness in terms of cost and service.

Conventional wisdom suggest big firms naturally enjoy cost advantages derived from the internal Economies of Scale (EOS), where the per-unit cost of output falls with increasing scale of production. In the industries where the Minimum Efficient Scale (MES) occurs at a very large output level, the big firms are endowed with competitiveness in terms of cost. As long as the firm stays efficient and allow the lower cost of production to be translated into competitive pricing, becoming big would imply being competitive. These sources of EOS can come from Technical Economies, Marketing Economies, Risk-bearing Economies and Administrative & Managerial Economies. As such, the long run average cost of the firms would fall as output expands, until the minimum efficient scale.

[Diagram of LRAC huge envelope curve, with falling cost over a large output, with the MES labeled - optional to draw the rising segments]

For manufacturing and petro-chemical industries, their plants would enjoy technical economies from greater division & specialization of labour, efficient use of their capital equipments due to indivisibilities and more scope for Research & Development given their large scale of production. This is observed in the oil and chemicals industries that are in Jurong Island (eg. Exxon-Mobil) - only big firms can remain in those industries because of the high overhead cost and large output required to start gaining returns on capital. In the consumer goods retail industry, the MES is typically at a very large output and for firms such as Carrefour, Giant Hypermarket, Cold Storage and NTUC Fairprice, they enjoy marketing economies as they can bulk purchase and distribute their goods, which lower both transport cost and the unit cost of the goods they retail. Advertising cost is also spread across a huge output and thus unit cost is minimized. Moreover, the large number of branches means that their advertising is more effective and no duplication is required.

All big firms would enjoy risk-bearing and administrative & managerial economies as their size means that they have huge number of assets under their control, making them more creditworthy. Their credit position enables them to take out huge loans at much lower interest rates and even borrow money from the public through offering of equity stakes in their firm. Their administrative & managerial departments need not expand proportionally with the scale of production, meaning per-unit cost is once again lowered. All these EOS implies that per-unit cost of the larger firms are much lower than their smaller counterparts. The lower cost per unit can be translated to lower, more competitive pricing. For example, the large Carrefour, being able to enjoy EOS, would always price their consumer products at prices lower than the small provision shops in the HDB heartlands of Singapore.

Besides cost advantages, the big firms enjoy greater demand as a result of the ability to make their presence better known through branding and huge advertising campaigns that only they

can afford. Research & Development would help raise the quality and thus demand for their products and their huge size enables them to provide follow-up services at much lower cost. This is seen in the case of the Challenger IT Superstore, which provide PC repair services for their own customers as opposed to smaller PC firms, where they would require you to get back to the manufacturer for any repairs to be made, incurring greater time and inconvenience on the part of the consumers. This would mean that the quality of service provided by big firms is more competitive than the small firms in the industry.

Nonetheless, as mentioned in the introduction, while it is sensible to aim to be big in order to be competitive, due consideration must be given the market which the firm is targeting, as well as the MES of the industry in concern. For industries such as hairdressing/barber, foot reflexology, or private practitioner's clinic, the MES occurs at a very low output and little cost savings are enjoyed. A barber, private practicing doctor, or a foot reflexology therapist is unable to cope with too high demand and their cost would not fall over large output because startup cost is low. Businesses dealing with limited edition collector's toys cater to a niche market of an exclusive group of consumers, and both the scope for EOS and the scope for expansion is severely limited. In all these industries serving rather specialized markets, it would be foolish to aim to be big to be competitive.

At the same time, the dynamics of the market and new innovations would also change the means of production or distribution, eroding cost advantages and lowering the MES for certain products. Big firms might not be able to cope with such changes that require them to scale back their production or change their production method in short run because of the large sunk cost in capital equipments. This inflexibility of big firms to react to market conditions is a huge drawback. Previous experience of such case includes that of the erosion of IBM's market share in personal computers by the Dell (used to be a small firm). With its huge sunk cost at the retail end and responsibility to maintain employment for their workers, IBM refuse to make use of Dell's marketing and distribution techniques that removes the retail middleman until it was too late. While a big firm is competitive at a given technology, new innovations in the market can sweep off its advantage and a small firm can still triumph over a big firm.

The majority of the firms in Singapore are big, global players because of the open nature of our economy. Thus, it would be sensible for firms to aim to be big in order to compete effectively with this global players and possible go global themselves as well. This is apparent in the case of many industries including the electronics, banking, even the food & beverage firms. Electronics companies that dominate Singapore include the Japanese Best Denki, the Australian Harvey Norman and the local Courts. These are all big players, and the local Courts only manage to compete in the market because its size is comparable to its rivals; in fact, Courts recently went regional by expanding into Thailand.

As Singapore finance sector open its doors to foreign banks, the government called for the consolidation of local banks in order to compete effectively with the potential rivals coming from the international banking markets. Local banks such as DBS has also expanded overseas and F&B industry, commonly believed to have very low MES in Singapore are also going global. Ya Kun Kopi, Breadtalk buns, Carona Chicken Rice are regional firms thanks to the branding advantage it enjoys by being big. These firms also happen to be the competitive firms that have succeeded in winning the support of consumers in the town. Given Singapore's small market size, to be big almost always mean that the firm has to expand overseas in order to enjoy the cost advantage and the huge demand in order to be competitive.

In conclusion, whether the firm should aim to be big to be competitive depends on the industry and the market that the firm is targeting. It is often wise to aim to be big in most industries whose target consumer are people from the general population and not limited to a particular geographical area, especially in a country like Singapore where the openness of the economy necessitates that competition in all markets to be intense.