

Edexcel (B) Economics A-level  
**Theme 2: The Wider Economic  
Environment**

**2.1 Business Growth and Competitive  
Advantage**

**2.1.5 How small firms compete**

Notes



## Small-firm survival in competitive markets

- **Product differentiation and unique selling points (USPs)**
- **Achieving competitive advantage through relationships with stakeholders**
- **Economies of scale relative to market size:** Large firms might only experience small economies of scale compared to their size, since the extent of economies of scale might be limited in that industry. This could make their costs higher than firms which choose to stay smaller.
- **Diseconomies of scale:** Larger firms could face high costs because they have grown too quickly. There could be poor organisation, x-inefficiency or because firms in large, formal markets tend to have to pay higher wages.
- **Small firms as monopolists:** Small firms could hold some degree of monopoly power, since they provide a more personal, local service. Their opening hours might suit a small town, such as those of a corner shop, and some consumer might prefer making smaller purchases, than the larger ones expected at bigger stores. Small firms might also create a **niche market**, where they can use their relatively price inelastic demand to charge higher prices. An example could be a small café over a multinational corporation.

