

Edexcel (A) Economics A-level  
**Theme 3: Business Behaviour &  
the Labour Market**

**3.1 Business Growth**







**3.1.3 Demergers**

Notes



## Reasons for demergers

A demerger is when a large firm is separated into multiple smaller firms. For example, if Boots sold Halfords since it did not match their main activities.

-  **Lack of synergies:** A synergy is when creating a whole company is worth more than each company on its own. Without this, firms are likely to demerge because they will be worth more.
-  **Growth:** Each part of the firm could grow at different rates. The faster growing part might be separated.
-  **Diseconomies of scale:** If the firm is so large that average costs rise with more output, the firm might choose to split.
-  **Focussed companies:** The firm might be able to grow faster if it focuses on a few markets, rather than several.
-  **Resources:** If a firm can no longer afford to invest the business, due to a lack of resources, they might sell off a part.
-  **Finance:** Selling off part of the firm can raise valuable finance, which could be better invested in a more profitable part of the firm.

## Impact of demergers

### Businesses

Firms can dispose of underperforming or loss-making parts of the firm. It allows the larger firm and the new, demerged firm to focus on their core activities. This allows them to adapt to their unique markets, whereas in a large firm, managers could find it hard to focus on each market.

Firms might be able to eliminate diseconomies of scale, since they are better able to control and coordinate their business.

The firm could make a profit by selling off a part of the firm. This can also be used as a source of finance, which will allow them to invest in other parts of the firm.

### Workers



Workers might become confused, and their roles might be shifted between the demerged firm and the parent firm. There could also be job cuts.

### Consumers

The removal of diseconomies of scale could lead to lower prices for consumers. There could be a net welfare gain if the demerger results in a higher level of efficiency. If two firms in the same industry and the same stage of production demerge, such as two airlines, this would increase choice for consumers.

