



BACKGROUND BRIEF

ECONOMIES OF SCOPE

Daina Neverauskas
daina@outbackalliance.org.au
0407 123 881
www.outbackalliance.org.au

The **Outback Alliance** is a cross-sectoral group of non-government organisations and individuals whose goals are to drive the development of policies for the better development, welfare and protection of Outback Australia's communities and environment. The Alliance has four thematic focus areas: environment, health, land-based livelihoods, and economic development. Each theme is informed by Indigenous Connection to Country perspectives, context, and cultural respect.

WHY ECONOMIES OF SCOPE MATTER

In well-populated areas, efficiencies are commonly gained through economies of scale. In Sydney, for example, the same waste collection trucks may be able to collect from twice as many customers by driving a kilometer further into the next suburb, thus making collections per house cheaper. This creates *economies of scale*. But to double the number of customers for waste collection in a remote area such as the Ngaanyatjarra lands around Warburton in Western Australia, the truck would literally have to drive thousands of kilometers more; this would actually make collections per house much more expensive.

In these situations, it is more efficient to look for *economies of scope*. These are gained when the same organization does multiple activities in one place, rather than the same activity in multiple places. For example, the Ngaanyatjarra Council used to do road maintenance, waste collection, run the stores and health services, and provide accounting services for those lands. It gained efficiencies by using one accountant for all its activities, and the personal relationships established with households for one activity could efficiently be used when doing the others.

The problem is that funding and tendering processes run from populated areas almost always implicitly assume efficiencies can only come from economies of scale. This undermines the ability of remote organisations to benefit from economies of scope, and makes them uncompetitive. From the program point of view, it actually *increases* the costs of (effective) services, or results in low effectiveness. This applies in many, diverse sectors.

PRACTICAL OPTIONS

- Improve awareness of the potential for economies of scope (many policy makers have not even heard of the concept but recognize its relevance easily enough once explained)
- Review tender and program grant selection criteria to ensure they are not biased against possible economies of scope (indicators of efficiency which make it hard to demonstrate economies of scope – for example, asking about past experience in delivering a single service)

- Where funding is aimed at remote (and rural) areas, explicitly include a criterion for achieving economies of scope (this might be expressed as applying local knowledge and relationships, or gaining efficiencies from synergies with other activities)
- For applicants, make sure you explain how you bring benefits to a proposal from other, possibly apparently unaligned, activities that you are undertaking in place.

TECHNICAL BACKGROUND

The differences between economies of scale, size, and scope were outlined in Dollery & Fleming (2005)¹, noting that these can be relevant to local government outside remote areas too. Key sources of economies of scope are ‘jointness in inputs’ (especially those that are resource intensive, e.g. building relations in a small community), ‘jointness in outputs’ (e.g. need to deliver physically to a remote location, where several deliveries can be achieved for the cost of one) and, more technically, ‘interactions among production processes’.

¹ Dollery BE, Fleming E. 2005. *A conceptual note on scale economies, size economies and scope economies in Australian local government*. Armidale, Australia: University of New England. Working Paper Series in Economics 2005-6. 23p. url: https://www.une.edu.au/__data/assets/pdf_file/0005/67964/econ-2005-6.pdf

