Economies of Scale

Economies of scale is a term used by economists to refer to the situation in which the cost of producing an additional unit of output (i.e., the *marginal cost*) of a product (i.e., a good or service) decreases as the volume of output (i.e., the *scale* of production) increases.

In the medical practice, economies of scale are related to the group practice model of more than two physicians working together. A single physician needs and will pay for a receptionist for the practice, but the receptionist may not have enough work to do to fill the time for a solo physician. In a practice of three physicians, however, the receptionist is kept busy and each physician needs only to pay 1/3 of the cost. Additionally, group practices are able to negotiate discounts on supplies due to volume and may also be able to negotiate better rates from payers. They may also be able to raise capital to invest in ancillaries like a specimen laboratory, imaging, or other type of testing lab.

Economies of scale can also determine the optimum size for a medical practice and at what point an increase in the number of physicians actually causes “diseconomies of scale” due to complexity of the organization.