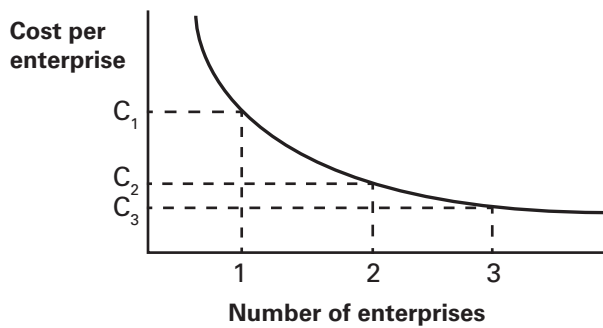


The economies of scope concept is defined as the process of reducing the cost of resources and skills for an individual business enterprise by spreading the use of these resources and skills over two or more enterprises. As shown in Figure 1, the cost for an enterprise is cut in half if the resources are used in two enterprises rather than just one. If the use of the resources is spread over three enterprises, the cost per enterprise is reduced to a third.

**Figure 1. Economies of scope**



### Economies of Scope Examples

The cost of a combine can be spread over several crop enterprises because, in many cases, the only thing needed to harvest another crop is a different combine head. Another combine does not need to be purchased for each additional crop enterprise. The same combine can be used to harvest corn, soybeans, wheat, barley, oats, canola, sunflowers, etc.

As a farmer, agronomic skills can be used in the production of two or more crops. Being a seed dealer and a farmer means that the knowledge gained about seed selection can be used both as a salesperson and a farmer. The same can be said about farmers who sell crop insurance.

### Economies of Scope versus Economies of Size

Economies of scope are different than *economies of size*. Economies of size involve spreading *fixed cost* over a large number of units of production of the same product or enterprise. Economies of scope involve spreading the cost of a set of resources or skills over two or more products or enterprises.

However, economies of size and scope are not mutually exclusive. While economies of scope allow costs to be spread over several enterprises, the size of each enterprise can be increased to also achieve economies of size.

See the [Ag Decision Maker website](http://www.extension.iastate.edu/agdm/vdanalysis.html#concepts) for more [economic and business analysis concepts](http://www.extension.iastate.edu/agdm/vdanalysis.html#concepts), [www.extension.iastate.edu/agdm/vdanalysis.html#concepts](http://www.extension.iastate.edu/agdm/vdanalysis.html#concepts).

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