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Business growth

How businesses grow

- Firms can grow and contract
- Internal growth
- External growth
- Firms can contract internally or externally
- Internal contract is delayering or closing unprofitable elements
- External contraction is selling off elements of the firm

Constraints on business growth

- The size of the market will impact a businesses ability to grow
- Without market growth, a business will struggle to grow
- As trends grow some markets decline while others grow which is why a firm will need to undertake market research
- Owners objectives will impact business growth
- Some owners will want to profit satisfice where a certain level of profit is enough to keep them content
- The business might want to retain core values like ethical principles
- Regulation is undertaken by the government to create competitive markets which affects the ability to create monopoly power
- Effective regulation will lead to greater choice and lower prices affecting the ability to make supernormal profit

Conglomerate integration

Advantages

- Spreads risk between different markets as firm diversifies
- Allows growth when current markets are competitive or saturated
- Allows for cross selling of products in different markets due to brand recognition and access to customers
- Allows market research to be shared across different markets

Disadvantages

- Finance required
- Lack of understanding and expertise when taking over firms in other markets
- Might reduce the focus of the firm on its core business and market
- Diseconomies of scale with communication and coordination problems between the business and that taken over

Organic growth

Advantages

- Less risky (avoids conflict and funded through retained profit)
- Greater consistency
- Maintain distinctive capabilities
- Less threat of brand dilution
- Can be steady
- Less loss of control

Disadvantages

- Occurs when a firm expands in size
- This is done through opening new stores, branches, functions or plants
- This can be achieved in the UK or on a multinational scale
- This is time consuming but low risk as control is easier to maintain

- Missed opportunities from acquisitions
- Potential for growth maybe more limited
- Lack of shared expertise
- Lack of competitiveness due to lack of economies of scale
- Pressure on leaders
- Dissatisfaction from shareholders

External growth

Integration

- This is the bringing together of two or more firms
- Horizontal integration happens when two firms at the same stage within a process integrate e.g 2 car manufacturers
- Vertical integration happens when two firms at different stages within a process integrate
- Forward vertical integration is when a firm takes over another firm ahead of it in the process e.g a car manufacturer takes over a car dealer
- Backwards is when a firm takes over another firm behind it in the process e.g a car manufacturer mergers with a tyre supplier
- Conglomerate integration is when two unrelated firms integrate e.g a car manufacturer merges with a book store

Merger

- When two or more firms agree to become integrated to form one firm under joint ownership

Takeover

- When one firm gains control over another and becomes the owner
- This is done by buying 51% or more of the shares

Horizontal integration

Advantages

- Gain monopoly power
- Benefit from expertise
- Remove competition from the market
- Achieve economies of scale
- Achieve corporate objectives
- Synergy

Disadvantages

- Finance required
- Clash of cultures
- Decentralised leading to less tight control of businesses taken over
- Diseconomies of scale with communication and coordination problems between the business and that taken over

Vertical integration

Advantages

- Secure supplier
- Secure outlet
- Foothold in a market
- Benefit from expertise
- Synergy
- Achieve corporate objectives

Disadvantages

- Finance required
- Clash of culture
- Can impact on focus of the business
- Can impact on economies of scale because of different processes
- Diseconomies of scale can happen because of communication and coordination problems