Beckfoot

A Level Business | Business Growth (1) | 3.2

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Growth 3.2.1

1	**Key Ideas**	**Growth of a business can happen from within or outside the company. Most businesses start small, then grow, Business like to grown because the benefits are very attractive.**
2	**Benefits of growth**	To achieve economies of scale To increase market power over customer and suppliers To increase market shore and brand recognition To increase profits
3	**Drawbacks of growth**	Can result in diseconomies of scale Can be a breakdown of internal communication They can overtrade and then not have the capacity to keep up with orders Can drain resources Customers may not like it and go elsewhere Loss of control of the business Too much change for the business to deal with

Mergers & Takeovers 3.2.2

1	**Key Ideas**	Mergers and takeovers take place when firms join together and operate as one organisation.
2	**Benefits of Mergers**	• One of the main reasons for mergers or takeovers is that the integration of the businesses exploit synergies. Synergies mean that the 2 businesses together are more powerful than 2 separate entities. • It is a quick and easy way to grow • Buying another business is often cheaper than growing internally • It can be seen as an investment • Can be done in response to economic changes and help survival • Mergers with businesses in another country can be a way of gaining entry in to a foreign market • It can be an easy way to grow globally • Benefit from economies of scale
3	**Key Idea**	Both mergers and takeovers are corporate strategies that aim to improve the performance of a business. However, they are different. Mergers are 2 or more businesses coming together usually with an agreement between them. They are generally friendly. Takeovers, occur when one business buys another. When a takeover is complete the company that has been 'bought' loses its identify and becomes part of the other company
4	**Integration**	When Businesses join together and can be classed in a number of ways. Horizontal Integration Vertical Integration Forward Vertical Integration Backward Vertical Integration

Risk & Reward 3.2.2

1	**Key Ideas**	Mergers and takeovers are common corporate strategies. They allow businesses to grow quickly and may create benefits for a range of stakeholders.. However, they can sometimes go wrong and may have a negative long term impact on a business
2	**Drawbacks of mergers /takeovers**	Regulatory intervention Resistance from employees Integration costs Bidding wars
3	**Benefits of mergers /takeovers**	Speedy growth Increase in salaries for senior members of staff Rewards to the previous owners Increased profits

Problems with rapid growth 3.2.2

1	**Key Idea**	Companies can pursue growth through mergers and takeovers. There external growth strategies have an associated risk. Some mergers and takeovers fail.
2	**Reasons growth fails**	Drain on resources of the business Too much change for a business to cope with Customers go elsewhere Loss of control Shortage of resources Diseconomies of scale

Vocabulary

1	Economies of scale	Unit costs fall when output increase
2	Diseconomies of scale	Diseconomies of scale occur when a business grows so large that the costs per unit increase
3	Mergers	Mergers are where 2 or more business join together and operate as one. Mergers are usually conducted with the agreement of both businesses.
4	Takeovers	A takeover occurs when an acquiring company successfully closes on a bid to assume control of or acquire a target company. Takeovers are typically initiated by a larger company seeking to take over a smaller one
5	Organic growth	Organic growth is the growth a company achieves by increasing output and enhancing sales internally
6	Productively efficient	producing goods and services with the optimal combination of inputs to produce maximum output for the minimum cost
7	Internal economies of scale	Benefit of cutting unit costs from factors within the business
8	Disintegration	Occurs when production is broken up so that more specialisation can take place
9	Specialisation	the process of concentrating on and becoming expert in a particular subject or skill
10	Vertical Integration	Occurs when firms in different stages of production join together
11	Horizontal Integration	Occurs when firms that are exactly the same line of business and the same stage of production join together
12	Backward vertical integration	Joining with a business in the previous stage of production
13	Forward vertical integration	Joining with a business in the next stage of production
14	Technical economies of scale	Technical economies arise because larger plants are often more efficient. The capital cost and the running costs of the plant do not rise in proportion to their size.

Organic Growth 3.2.3

1	Key Ideas	**Organise growth is growth from within the business, which occurs naturally as businesses sell more product. Inorganic growth involves joining 2 businesses together so that in theory they double in size overnight.**
2	Methods of organic growth	Organic growth usually involves a business growing by building on this strengths to increase sale in different ways. New customers New Products New New Markets New Business Models Franchising
3	Benefit of Organic growth	• Less risky • Cheaper • Retain control of the business • Better protected financial position • Less likely to encounter diseconomies of scale
4	Drawbacks of organic growth	• The pace of growth may be too slow • May prevent the business from 'tapping in' to the resources owned by other businesses, therefore missing out on profitability opportunities • Growing slowly means a business might get left behind in the market • It may take too long to achieve economies of scale • If a market is growing quickly but a business grows slowly, organic growth may be the wrong choice

Reasons for staying small 3.2.4

1	**Key Ideas**	There are many reasons businesses want to stay small. Despite the advantages of large scale production, there are advantages to not growing. Small Business survival in competitive markets depends on the following: Product differentiation and USPs Flexibility in responding to customer needs Customer services E-Commerce
2	**Key Ideas**	The advantages of small businesses over larger ones is that they can focus on the following areas: Personal service – every customer can get a 1-2-1 service Owner level of profits – once this level of profit is hit the owners remove the pressure to grow More flexible More efficient – less waste Lower costs Lower barriers to entry – in some types of business the set up costs are so low that it encourages other businesses to enter in to the market which means more competition for the market Monopolistic – where a business provides a product/service to members of the local community that no other business provides
3	**Product Differentiation & USPs**	If a small business can offer customers something that their larger rivals do not, survival is possible. People often prefer to buy product that are different from the majority of others on the market.
4	**Flexibility**	Small and nimble businesses are often quicker in identifying new opportunities and responding to the needs of their customers.
5	**Customer services**	Offering high-quality customer service is a way of adding value to products. It can also give businesses a competitive advantage in the market and allow them to survive in markets dominated by larger companies.
6	**E-Commerce**	Developments in technology mean that it is not difficult to set up an online business. It could be argued that e-commerce helps smaller firms to complete more easily with larger ones. E-commerce comes in the form of: • Online Shops • Social media consultants • Information and advice sites • Tutoring and training sites

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5	Organic growth	Organic growth is the growth a company achieves by increasing output and enhancing sales internally
6	Inorganic growth	When 2 or more businesses join together and, in theory, double in size overnight