Beckfoot

Subject: Economics	Topic: Business growth and competitive advantage	Year Group: 12

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Objectives of growth

1	to achieve economies of scale (internal and external)
2	increased market power over consumers and suppliers
3	increased market share and brand recognition
4	increased profitability

Problems arising from growth

1	diseconomies of scale
2	internal communication
3	potential skills shortages
4	increased profitability

R&D and innovation

R&D leads to economic growth and from the state's point of view this has clear benefits such as rising GDP and real incomes and falling unemployment
The problem is that R&D can be expensive and not enough is undertaken

Organic growth

Advantages	Disadvantages
Allows the business to grow at a more sensible rate in the long run	Competitors may grow much faster in the meantime
Less risky	Slow process
Firms might rely on the strength of the market to grow, which could limit how muchand how fast their can grow.	Growth achieved may be dependent on the growth of the overall market
Can be financed through internal funds (e.g. retained profits)	Hard to build market share if business is already a leader
Builds on a business' existing strengths (e.g. brands, customers)	Slow growth – shareholders may prefer more rapid growth of revenues and profits

R&D and innovation

R&D is investment in technical and/or scientific research undertaken with a view to introducing new or improved products and services or improving methods of production.
The most successful firms systematically pursue innovation (Apple, Samsung) and it becomes part of their corporate culture (Google).
R&D is another way of increasing market power. R&D can serve to differentiate the product from that of rival firms, potentially increasing brand loyalty and revenues.
Product innovation is usually associated with relatively small, often subtle changes to the characteristics and performance of a product. Process innovation involves changes to the way in which production takes place to become more efficient.

Inorganic growth

Advantages	Disadvantages
Faster speed of access to new product or market areas Increased market share / increased market power Access internal economies of scale (perhaps by combining production capacity) Secure better distribution channels / control of supplies Acquire intangible assets (brands, patents, trademarks) Overcome barriers to entry to target new markets Defend a business against a takeover threat Enter new segments of an existing market To take advantage of deregulation in an industry / market	Business may lose sight of the direction its taking Could lead to higher debt levels No guarantee that firms will work well together, clash of business cultures? Growing too quickly is high risk Employees may feel left out Challenging management environment

Integration

Vertical integration occurs when a firm merges with or takes over another firm in the same industry, but a different stage of production.
Forward vertical integration occurs when the firm integrates with another firm closer to the consumer. This involves taking over a distributor. For example, a coffee producer might buy the café where the coffee is sold.
Backward vertical integration occurs when a firm integrates with a firm closer to the producer. This involves gaining control of suppliers. For example, a coffee producer might buy a coffee farm.
This is the merger of two firms in the same industry and the same stage of production. For example, if a car manufacturer merges with another car manufacturer, they will have horizontally integrated.
This is the combining of two firms with no common connection. For example, Associated British Foods owns Primark and Patak's, which produces curry pastes and pickles.

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Product life cycle

1	Development	The product is in development and not yet launched, sales are zero
2	Introduction	The product is launched in the market, sales are low
3	Growth	The product sees high growth, sales are high
4	Maturity	The product starts to mature in the market, sales stagnate
5	Decline	The product is starting to lose its appeal, sales are declining.
Extension strategies		The product pursues strategies to prevent the decline of the product e.g. special offers, innovative features, offers, new design, etc…

The digital economy

The selling and buying of goods and services electronically has changed the nature of many markets in a variety of ways.	Consumers are much more informed thanks to the internet, price comparison sites and reviews – hence forcing firms to be more price competitive
Viral marketing is a strategy by which a firm, creates a campaign focused on causing viewers of that promotion to spread it by sending it to friends by email, text or social media.	Social media allows firms to increase sales and awareness at no or very low cost. Marketing campaigns can be targeted based on past interest, likes, viewing also known as micro marketing.
The digital economy has allowed small firms, perhaps supplying niche products, to exploit wider geographical markets through online selling	

How small firms compete?

Product differentiation and unique selling points (USP's)
flexibility in responding to customer needs
customer service
targeting niche markets
achieving competitive advantage through relationships with stakeholders

KEY VOCABULARY

Product life cycle	A graph that shows the stages in a product's life from development to final withdrawal from tehmarket
Organic growth	It happens when a business expands its own operations rather than relying on takeovers and mergers.
Inorganic growth	Inorganic growth arises from mergers or takeovers rather than an increase in the company's own business activity.
Long tail theory	The long tail is a business strategy that allows companies to realize significant profits by selling low volumes of hard-to-find items to many customers, instead of only selling large volumes of a reduced number of popular items
Horizontal integration	Horizontal integration involves the combination of two business operating in the same industry and at the same stage of the supply chain.
Congolomerate integration	A conglomerate merger is a merger of two firms that have completely unrelated business activities.