

2.1.1. Business Growth

Methods Of Business Growth And Their Impact

The 2 types of growth are **organic** and **inorganic**

Organic Growth

- ☐ This means that the business has grown from within
- ☐ The growth did not depend on a merger/takeover with another business

How does Organic Growth Occur?

- ☐ Developing new products, this is called **new product development**
- ☐ New products brought to market (**innovations**)
- ☐ A business can put investment into R&D which is **research and development**
- ☐ A business can grow by entering new markets e.g.:
 - ☐ Expanding overseas
 - ☐ Changing the marketing mix
 - ☐ Taking advantage of new technology

Advantages of Organic Growth

- ☐ Business can keep their company culture
- ☐ Higher production lets the business benefit from economies of scale and lower average costs
- ☐ More market share, the business can start setting prices for the industry as they have more influence

Disadvantages of Organic Growth

- ☐ Very high risk strategy, opening lots of stores or taking on new staff is very risky
- ☐ Long period between investment and return on investment
- ☐ Growth may be limited and is dependent on reliability of sales forecasts

2.1 Growing the business

Inorganic Growth

- ☐ A business may want to grow quickly and this can be achieved by:
 - ☐ **Mergers** – Two businesses merge together to become one
 - ☐ **Takeovers** – One business takes over another business buying **more than 50%** of the shares. This can be considered a hostile take over is shareholders disagree

Advantages of Inorganic growth

- ☐ **Economies of scale.** Better deals because of increased order size, bulk-buying discounts etc
- ☐ **Increased revenue and market share** as you are combining 2 companies together
- ☐ **Buying technology** due to increased available funds
- ☐ **International Expansion.** Buying a business in another country helps with culture issues, laws etc.

Disadvantages of Inorganic Growth

- ☐ **Clash of cultures.** Businesses have a slightly different culture and they may not work well together
- ☐ Possible **communication problems** as the business gets bigger, or if there are now too many employees
- ☐ **Unreliable merger partners.** A good merger will depend on trust between the businesses
- ☐ **Diseconomies of scale.** As a business gets larger costs will go up with problems of motivation, communication and co-ordination
- ☐ A lot of mergers fail (approx. 70%)

Types of business ownership for growing businesses

As a business grows they may decide to sell shares on the stock market. This means the gain PLC status (Public Limited Company).

Characteristics of a PLC

- ☐ Shares bought and sold on the **Stock Exchanges**
- ☐ Shares are open for **anyone to buy**
- ☐ Most shares in a plc are owned by organisations rather than individuals
- ☐ The business can **expand** at any time by **selling more shares** to raise finance
- ☐ **Limited liability** which means the business has its own legal status, so the owners cannot be sued

Advantages of PLC

- ☐ Limited Liability- only lose your investment
- ☐ Easy to raise capital – issue more shares
- ☐ Banks more willing to lend money to a large well-established company – less risk
- ☐ Easier to grow and expand

Disadvantages of PLC

- ☐ Expensive
 - ☐ a lot administrative work (paper work)
 - ☐ Raise at least £50,000
- ☐ Issue more information about itself – expensive to produce
- ☐ Has to prepare Annual Accounts – printed and sent to all shareholders
- ☐ Also make them available for general public and competitors to see, so they will know what your plans are for the business

Sources of Finance

Internal: this means the business finds the money that it needs itself, for example through selling an asset or through using the profits that it has.

- ☐ Retained profit is reused to reinvest in the business
- ☐ A start up business will not have any retained profit as it will not have made any to retain
- ☐ No interest to pay using this method
- ☐ Main disadvantage is that once you have used it up it is gone until you make more profit
- ☐ Selling machinery could lead to slower production rates

External: this means that the business will need to borrow the money to expand somehow, this includes loans, shares and even floating shares on the stock market

Loans

- ☐ Money is available almost instantly this way
- ☐ A loan will have to be paid back with interest

Share Capital (Ltd)

- ☐ Selling shares means that you have to share even more of your profits
- ☐ However there is no interest to pay so it can be cheaper than a loan

Floating on the Stock Market (PLC)

- ☐ A Ltd business may decide it needs more money to expand and will become a public limited company
- ☐ This means it can “float” the shares on the stock market
- ☐ Shares in the business can now be sold to the general public, generating more capital to expand

2.1 Growing the business

2.1.2. Changes In Business Aims And Objectives

Why Aims & Objectives Change As Businesses Evolve:

Changes in Market Conditions:

Aims and objectives may change in line with market conditions. This could be because more businesses are entering a market or there could be external factors such as unemployment rising which affects the demand for products.

Changes in Technology

New production processes and products may be released into a market which would mean that the businesses need to adapt their current aims and objectives. For example new technology that could speed up the production process increasing output. Also new technology introduced to the market such as a dual camera on a phone. The businesses would need to respond to such changes.

Changes in Performance

A business may change depending on its performance from the previous year. E.g. a business that has performed well may want to grow and expand, however a business that did not perform so well may need to reduce their staff to keep their costs low.



Changes in Legislation

New laws may affect the business aims and objectives. For example minimum wage rates in the UK may affect the way in which a business grows. This is because there is a set minimum for which a business needs to pay its employees.

Changes Internally

A business may need to change due to internal reasons within the business. This could be due to a shift in the products being offered by a company, or if it is expanding.

How business aims and objectives change as businesses evolve

Some businesses may focus on:

- ☐ **Survival or growth** – Survival will apply to a new start up, and they may want to expand the following year
- ☐ **Entering / Exiting markets**- Entering new markets which may be profitable, or exiting markets which aren't as profitable
- ☐ **Expanding / Decreasing the workforce**- This could be to grow the business, or to reduce costs by employing less workers
- ☐ **Increasing the product range**- To give the customers a wider range of choice, therefore meeting customer needs
- ☐ **Decreasing the product range**- This will decrease the range and only sell more desirable products. Some products may not be selling well and may be discontinued by the business

2.1.3 Business and Globalisation

Globalisation- The process of a business operating on an international scale



Impact of Globalisation

- ❑ **Imports** (buying goods from abroad)
 - ❑ Competition From Overseas- which may sell similar products and already be established in another country.
 - ❑ Buying From Overseas- Companies can buy products from overseas which are already manufactured ready to sell
- ❑ **Exports (Selling to other countries)**
 - ❑ Selling To Overseas Markets- increasing revenue
- ❑ **Changing Business Locations-** A business may decide to move their entire business operations abroad. This is called **offshoring**
- ❑ **Multinationals** – This is a business which may decide to trade in more than one country

Barriers to International Trade

Tariffs- These are taxes placed on imports to increase their price and to decrease their demand.

Tariffs can be adjusted by governments to raise revenue (as they are a tax) and to limit imports

The tariff is used to persuade customers to buy UK produced products rather than one from abroad

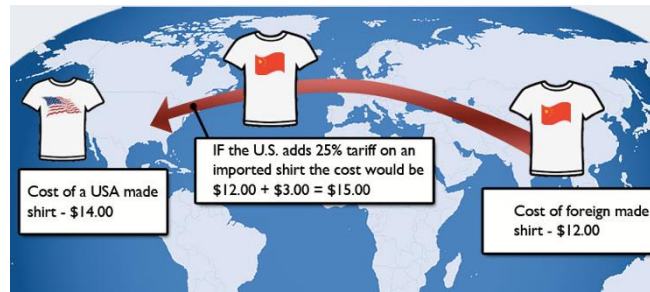
tariff

A duty that a government charges on goods coming into or going out of the country

2.1 Growing the business

Tariff Advantages / disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none">❑ UK produced goods do not pay tariffs so should be cheaper❑ Tariffs allow UK goods to gain a price advantage❑ Tariffs can protect a market from being taken over by international competitors❑ Can raise revenue for governments to spend on the UK	<ul style="list-style-type: none">❑ Some customers will pay the higher price for the imported goods❑ Tariffs will increase the costs for all customers❑ Other countries may impose tariffs on UK goods as we have imposed the tariff on them



Trade Blocs

These are a group of countries that make a trade agreement not to place a tariff on imports.

An example of a Trade Bloc is the EU (European Union). The countries in the EU have no barriers to trade and no tariffs to pay when trading between countries in the EU.

How businesses compete Internationally

E-commerce – A business can use the internet to buy and sell products online.

For example a small business could use a website to trade worldwide. They may however need to translate their website into different languages to do so. Ecommerce reduces the need to set up an international shop as everything can be done via a website.

Changing The Marketing Mix To Compete Internationally.

- ❑ **Product:** This may need adapting to suit local tastes, colours, the name may need to be changed
- ❑ **Place:** A business may need to find a reliable method of transporting their goods to international customers
- ❑ **Price:** Prices may have to be adjusted to take account of foreign wage rates e.g. penetration pricing
- ❑ **Promotion:** This will need to be the right promotion to encourage foreign customers to try the product e.g. multipack deals.

2.1.4 Ethics, Environment & Business

Ethics

☐ Ethics is the understanding of what is right and wrong. In a business this could be:

- ☐ Paying workers a fair wage
- ☐ Providing good working conditions
- ☐ Not polluting
- ☐ Not to exploit people
- ☐ Not to harm the planet

How Ethical Considerations Influence Business Activity:

Trade offs

A trade off in business is compromising between two different items. Examples of trade offs in business are:

Option 1	Option 2	Why is this a trade off?
Shareholders want to maximise profits	Business owners may want to run a business ethically	Trading ethically could be expensive and affect profits
Shareholders want to produce more products to sell more / make more profits	Pressure groups want businesses to stop polluting the environment	Businesses who produce more would cause more pollution. This could cause pressure groups to protest

2.1 Growing the business

Pressure Groups

A pressure group is an organisation that try to influence businesses to conduct their business in a certain way. This could be not to harm the environment and also to treat workers fairly.

Pressure groups will do the following to try and inform consumers about a businesses activity:

- ☐ Write to newspapers
- ☐ Write letters to MPs
- ☐ Organise protests and marches
- ☐ Run campaigns against companies



Pressure groups can affect a business as they will influence customers buying habits by alerting them to ethical issues with the business.

e.g. if a business is underpaying workers a pressure group could sent out media as well as protest about this to bring the issue to the consumers attention.

Impact of pressure groups

1. Pressure group starts a campaign against a business
2. Consumers see this campaign and do not agree with a companies ethics
3. Revenue, sales and profits falls for the business
4. The business changes it way it operates to be more ethical

Potential Impact Of Pressure Group Activity On The Marketing Mix

Product

Pressure groups may want to bring awareness to some products. They may want to change the product or the way its made.

An example being John West Tuna was discovered to be using harmful fishing methods. Pressure groups brought this to the attention of the supermarkets. Sainsbury's then stopped selling the product until the business changed their ways. This will have had a significant impact on the sales of John West during that time.

Promotion

Some of the pressure groups often attempt to damage a brand reputation with bad publicity. The aim of this is to pressure the business into making changes.

One example was that some chocolate companies had been using palm oil in their products. In order to get palm oil animals habitats were being destroyed. Pressure groups alerted the public to this which led to a decrease in sales for the companies until they stopped using palm oil in their products.



Revision Questions

These questions are based around the previous slides. Test your knowledge to see if you can answer them!

1. What is organic growth? [1]
2. What are some of the ways organic growth can occur? [2]
3. What are some of the advantages of organic growth? [3]
4. What are some of the disadvantages of organic growth? [3]
5. What is inorganic growth? [1]
6. What are some of the ways inorganic growth can occur? [2]
7. What are some of the advantages of inorganic growth? [3]
8. What are some of the disadvantages of inorganic growth? [3]
9. What is the difference between a merger and a takeover? [2]
10. What are the advantages and disadvantages of a PLC? [8]
11. What is an internal source of finance? Give examples [3]
12. What is an external source of finance? Give examples [3]
13. Why might a businesses aims and objectives change? [5]
14. What is globalisation? [1]
15. What are the impacts of globalisation on imports and exports? [4]
16. What is a tariff? How is this a barrier to international trade? [5]
17. What are the advantages and disadvantages of a tariff? [5]



2.1 Growing the business

18. What is a Trade Bloc? [2]
19. State one method in which a business can compete internationally [1]
20. How might a business change the marketing mix to compete internationally
 - ☐ Product [1]
 - ☐ Price [1]
 - ☐ Promotion [1]
 - ☐ Place [1]
21. What are some ways in which a business can operate ethically? [5]
22. What is a trade off in a business? Give examples [4]
23. What is a pressure group? [2]
24. How can a pressure group impact on business activity? [4]
25. Which of the following is an example of a Trade Bloc? [1]
 - ☐ United Kingdom (UK)
 - ☐ European Union (EU)
 - ☐ North America (NA)
26. Which two of the following are ways in which a business can operate ethically [2]
 - ☐ Paying workers fairly
 - ☐ Exploiting workers to increase profits
 - ☐ Causing minimal pollution
 - ☐ Providing poor working conditions



Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- ☐ Read through the question underlining any key points
- ☐ For these types of questions an extended answer is expected.
- ☐ Discuss both the advantages and disadvantages of the given context
- ☐ When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario

Businesses can grow both organically and inorganically. Evaluate how both of these types of growth can affect a business in its expansion. [12]

