CHAPTER 16 – BUSINESS EXPANSION

PAST BUSINESS EXPANSION QUESTIONS

2019 - OUTLINE THE BENEFITS AND RISKS OF A STRATEGIC ALLIANCE AS A METHOD OF BUSINESS EXPANSION. (i)

Benefits

1. It is a voluntary agreement.
2. Each party remains a separate legal entity.
3. Skills and risks are shared so both parties gain.
4. Access to an established network of suppliers and distributors.
5. It is a quick low-cost way to expand into foreign markets.
6. The partners benefit from the sharing of business networks.

2019 - OUTLINE THE BENEFITS AND RISKS OF A STRATEGIC ALLIANCE AS A METHOD OF BUSINESS EXPANSION. (i)

Risks

1. Corporate secrets/competitive advantages can be lost.
2. Alliances may not be equal. One side may contribute more than another.
3. Alliances are temporary so careful change. management is needed to ensure that full- time staff are not alienated as they will be relied on when the alliance is over

2019 – EXPLAIN ONE OTHER METHOD OF BUSINESS EXPANSION (ii)

Mergers - Two business join together and create a new legal entity. Not only does the firm acquire new capacity, experience and skills quickly but it also acquires more consumer demand quickly (market share increases immediately).

2019 – EXPLAIN ONE OTHER METHOD OF BUSINESS EXPANSION (ii)

Acquisitions - One business purchases a controlling stake (51% or more of voting shares) in another business and 'acquires' it. Acquisitions are often hostile and can go against the wishes of the existing owner.

Franchising - It is a form of expansion which requires, low capital investment by the franchisor as the capital used to expand the business comes from franchisees. Very suitable/popular in the current economic climate as a form of expansion.

2018 -CIRCLE THE CORRECT OPTION

1. An acquisition (takeover), is a form of **inorganic growth**/ organic growth.
2. In a merger, businesses trade under their own names/ **a new legal entity is Created**
3. In a strategic alliance, businesses share expertise, and the agreement is permanent/**temporary**.
4. Expansion can be financed by debt capital which includes / **does not include** ordinary share capital.
5. Economies of scale are defined as **unit (average) cost** / total costs decreasing as output increases.

2018 - OUTLINE ADVANTAGES AND DISADVANTAGES OF FRANCHISING AS A METHOD OF BUSINESS EXPANSION.

Advantages

1. low capital investment by the franchisor
2. more rapid expansion. without incurring the overheads and costs associated with opening company-owned restaurants.
3. The franchisor can be assured that the person operating will be "attending to business" as much as they would. people who are motivated to make it work
4. Economies of scale exist. command deals with various suppliers.
5. Francisor profits are generated on a much lower capital investment

2018 - OUTLINE ADVANTAGES AND DISADVANTAGES OF FRANCHISING AS A METHOD OF BUSINESS EXPANSION.

Risks

1. Control is lost over the day-to-day management of the franchise businesses.
2. The reputation of the whole business could be affected by the actions of one franchisee /poor quality standards/staff
3. A training programme for franchisees will be required. This will be expensive and time consuming.
4. Franchisees will have to be monitored on a regular basis.

2015 - ILLUSTRATE THE DIFFERENCE BETWEEN A MERGER AND A STRATEGIC ALLIANCE.

A merger is a friendly or voluntary amalgamation of two or more businesses for their mutual benefit. A single new legal entity is formed. Example: Glanbia plc was formed in 1997 out of the merger of Avonmore Foods plc and Waterford Foods plc.

A strategic alliance: When two or more independent firms agree to co-operate and share resources and expertise for the mutual benefit of all parties involved. The firms remain completely independent legally and each firm maintains its own separate trading identity. -Mazda and Toyota sharing technology resources

2013 – EVALUATE TWO METHODS OF BUSINESS EXPANSION

A merger (Evaluation needed)

1. A friendly or voluntary amalgamation or joining together of two or more firms for their mutual benefit, trading under a common name.
2. A single new legal entity is formed once it is approved by shareholders. E.g. Avonmore Co-op and Waterford Foods merged to form Glanbia plc.
3. It is a defensive strategy as the merger may involve diversification into new product areas, which reduces the risk of the firm 'having all its eggs in the on basket'.
4. Costs will be lower because of economies of scale and the sharing of costs and resources.

2013 – EVALUATE TWO METHODS OF BUSINESS EXPANSION

A takeover (Evaluation needed)

1. This occurs when one company purchases 51% or more of the shares in another company in either a hostile or friendly manner.
2. The acquiring company absorbs the other company, which loses its identity after the acquisition and becomes part of the acquiring company.
3. The cost of the takeover can be very expensive.
4. Eircom took over Meteor mobile phone company for €420 million.

2013 – EVALUATE TWO METHODS OF BUSINESS EXPANSION

A Strategic alliance (Evaluation needed)

1. When two or more independent firms agree to co-operate and share resources and expertise with each other for the mutual benefit of all parties involved.
2. The firms remain completely independent legally and each firm maintains its own separate trading identity.
3. Google announced a partnership with Kia Motors and Hyundai. The partnership integrates Google Maps and Places into new car models.
4. The firms benefit from the sharing of resources and talent that otherwise they wouldn't have access to. Either party can end the arrangement easily if they choose to do so.

2013 – EVALUATE TWO METHODS OF BUSINESS EXPANSION

A Franchise (Evaluation needed)

1. This is a business arrangement whereby the franchisor (the existing business with the proven business model) grants a contractual licence/permission to the franchisee (person setting up the business) to use its name, logo and business idea in return for a fee or a percentage of profits or sales.
2. The franchisor can expand his business without having to invest further capital or take additional risks as these are passed onto the franchisee in the contractual arrangement.
3. Some franchises in Ireland include, The Zip Yard, Gloria Jean's Coffees
4. it is a cost effective form of expansion for the franchisor. It can be

CHAPTER 16 – BUSINESS EXPANSION

PAST BUSINESS EXPANSION QUESTIONS

2012 - DISCUSS THE POSSIBLE REASONS FOR BUSINESS EXPANSION AND GROWTH

1. Ambition and desire to build an empire on behalf of the owner or managers
2. Diversification. Spreading the risk by moving away from a company's core area of business
3. Protecting essential stock of supplies.
4. Economies of scale. As a firm expands the costs fall because of bulk buying, savings in transport, lower storage costs etc. Lower costs mean cheaper goods, higher sales and more profits.

2012 - DISCUSS THE POSSIBLE REASONS FOR BUSINESS EXPANSION AND GROWTH

5. Merging with or taking over a competitor the business may eliminate a threat to its market share.
6. Acquire new technology and new products developed by competitors.
7. Market for baby products/toys to some extent is recession proof.
8. Profitability/financial strength.

Remember to make reference to the case study in your answer

2011 – ILLUSTRATE THE DIFFERENCE BETWEEN A MERGER AND A TAKEOVER AS METHODS OF BUSINESS EXPANSION (i)

A merger

1. is a friendly/voluntary amalgamation of two firms for their mutual benefit.
2. It involves the mutual consent of two equal companies to combine and become one entity.
3. A single new legal entity is formed once it is approved by shareholders and neither has control over the other e.g. Avonmore Plc and Waterford Plc merged to form Glanbia

2011 – ILLUSTRATE THE DIFFERENCE BETWEEN A MERGER AND A TAKEOVER AS METHODS OF BUSINESS EXPANSION (i)

A takeover

1. is where 51% of the shares in another company have been purchased in either a hostile or friendly manner.
2. The acquiring company absorbs the other company, which loses its identity after the acquisition and becomes part of the acquiring company. 3.
3. The cost of the takeover can be very expensive. It is the product of the share price multiplied by the number of shares purchased e.g. Eircom took over Meteor mobile phone company for €420 million.

2011 - DISCUSS THE BENEFITS AND RISKS OF A MERGER AS A METHOD OF EXPANSION

Benefits

1. It is a defensive strategy as the merger may involve diversification into new product areas, which reduces the risk of the firm 'having all its eggs in the on basket'.
2. It is a quick form of business expansion unlike organic growth.
3. Costs will be lower if mergers with another business -economies of scale/sharing of costs/resources.
4. firms can access new technology and new markets quickly

2011 - DISCUSS THE BENEFITS AND RISKS OF A MERGER AS A METHOD OF EXPANSION

Risks

1. Mergers can cause industrial relations problems. e.g. Redundancies could result, which could cause industrial relations disputes.
2. Different organisational cultures between Kilronan Ltd and the other business can lead to conflict between competing management teams who are used to their own work practices and management styles and systems. This may cause a lack of co-operation within the new larger merged entity, leading to poor management decision making.

2011 - DISTINGUISH BETWEEN DEBT CAPITAL AND EQUITY CAPITAL AS SOURCES OF FINANCE FOR EXPANSION

Equity Capital

Control - The issue of shares may dilute control of Kilronan Ltd.
Interest Repayments/Dividends - There is no obligation to ordinary shareholders. However, if dividends are routinely small or not paid, this may adversely affect the share price.
Risk - The business risk would be lower with less debt (lowly geared.)
Collateral - No security will be required
Tax Implications. - Dividends to ordinary shareholders are not tax deductible.

2011 - DISTINGUISH BETWEEN DEBT CAPITAL AND EQUITY CAPITAL AS SOURCES OF FINANCE FOR EXPANSION

Debt Capital

Control - Debt/loan capital used to finance the business will not impact on control of the business
Interest Repayments/Dividends - Fixed Interest repayments must be made
Risk - Fixed interest repayments on debt capital must be made regardless of profitability Increased risk of bankruptcy – more creditors,
Collateral - may have to supply some security/collateral for Debt Capital.
Tax Implications. – Interest payments are tax deductible

2010 – EVALUATE FRANCHISING (BENEFITS AND RISKS) AS A METHOD OF EXPANSION

Benefits

1. low capital investment by the
2. Franchising permits a more rapid expansion.
3. An owner will be more attentive than a manager
4. There is strength in numbers.
5. The return on investment is much higher
6. A franchise system requires less management
7. There is low risk to the franchiser

2010 – EVALUATE FRANCHISING (BENEFITS AND RISKS) AS A METHOD OF EXPANSION

Risks :

1. Control is lost over the day-to-day management of the franchise businesses.
2. The reputation of the whole business could be affected by the actions of one franchisee /poor quality standards/staff problems
3. Maintaining a brand's integrity through the process may be difficult.

2009 – EXPLAIN THE TERM 'BUSINESS ALLIANCE'.(i)

A business alliance is an agreement between two or more businesses to pool resources and/or expertise to work together over a specified period of time or to complete a specified project, while all parties maintain their separate identities.

The TCD / UCD Innovation Alliance is a partnership which will work with the education sector, the State and its agencies

2009 - ILLUSTRATE THE ADVANTAGES OF AN ALLIANCE AS A FORM OF BUSINESS EXPANSION.

1. Cost effective method of expansion – resources are shared and associated costs divided between partners.
2. Reduces risks associated with expansion for each partner as risks are shared
3. Resources/expertise can be 'recruited' through alliance – lack of resources or expertise does not need to be an obstacle to expansion
4. Provides access to an extended business network and market

Examples: Disney and Mc Donalds

CHAPTER 16 – BUSINESS EXPANSION

BUSINESS EXPANSION

REASON FOR EXPANSION

DEFENSIVE	AGGRESSIVE	PSYCHOLOGICAL
1. Reduce Costs	1. Increase profits	1. Empire Building
2. Survive economic shocks (Recession)	2. Acquire new products	2. New challenges
3. Recue Risk		
4. Protect raw material suppliers		
5. Protect labour supplies		

INORGANIC EXPANSION

STRATEGIC ALLIANCE	ACCQUIRE/TAKEOVER	MERGERS
This occurs when two or more firms agree to co-operate in the establishment of a project of business. The remain separate but share skills and resources.	This occurs when one firm buys at least 51% of voting shares of another firm and gain majority control.	Occurs when the manager and shareholders of two companies of roughly equal size agree to voluntarily join together to form a single firm.
It can be a fast and low risk method of expansion. Profits and control may be shared. Greater communication and shared decision making may slow down expansion	Take over are hostile if it takes place against the best wishes of management. Subsidiaries are companies where another company owns 50% or more of their shares	The state competition Authority/EU commission may investigate proposed takeover and mergers
Glanbia and French company (Yoplait)	Ryanair acquires UK budget airline Buzz	AIB was a merger of smaller banks

KEYWORDS

Defensive – This is because they have to expand. A business may have to expand to ensure it survival.
Economics of Scale – This when the unit price of a product reduces as you buy more of it.
Aggressive - The business may expand because they want to. T
Psychological – It's in their mind
Empire building - To try and create the largest business in their area, industry or Country. Maslow Hierarchy of needs – esteem needs. Example Donald Trump
Organic Growth – a Firm expands gradually using existing products or developing new ones
Inorganic growth – Means forming a strategy with or by engaging in mergers and acquisitions of another business
Franchising - This means renting (franchiser) of a complete business idea including name logo and products to someone else (Franchisee). It is growing in popularity in the retailing and service industry. E.g Mcdonalds, Camile
Franchiser - These are the people who come up woth the idea and rent it to someone else for a fee (Royalty). It is a fast expansion method. But there is a loss of profits, control. And reputation of the whole business
Franchisees – there are the people who rent the business idea they bbenefit from a proven business idea with an existing brand image and reputation. They get training and advice from the franchiser. They bear the risk and financial burden of the new outlet with little control on how to manage it. Have to pay a royalty fee based on sales

ORGANIC EXPANSION

INCREASE DOMESTIC GROWTH	EXPORTING	LICENSING	FRANCHISING	DIVERISIFACTION
This is low risk because 1. The product is already known, 2. There's now extra cost for R&D, 3. Skilled Staff.	Exporting means selling goods and service outside of Ireland (the money stays in Ireland). It can be very profitable and does not affect ownership.	This means allowing other firms to sell an invention/design in return for payment of a license fee or royalty. The firm selling the license (Licensor) be paid	This means renting (franchiser) of a complete business idea including name logo and products to someone else (Franchisee). It is growing in popularity in the retailing and service industry. E.g Camile	This may be used when a product is coming to the end of its life cycle. It is the increasing the range of products/ services that are offered by a business. It's a popular method of expansion as there are very high.
However, Ireland is a small country so growth many be limited and expansion may be slow	It can take years to generate profits (Training, Marketing Mix, Product methods). The risk is also greater – unknown markets	it can be a fast low cost and low risk expansion but loss of profits and control can be lost. For the firm getting the license it can be a low expansion method but a license fee must		But it is also high cost and high risk as many new products fail. It can also take a long time to get from a development stage to a launching stage

CHAPTER 16 – BUSINESS EXPANSION

BUSINESS EXPANSION

SOURCE OF FINANCE FOR BUSINESS EXPANSION

GRANTS	EQUITY	DEBT FINANCE	SALE AND LEASE BACK
A Business grant is a sum of money given to a business in order to help them further their business	This is finance that is provided by the owners of the business.	This is taking out a long-term loan, they have to make sure that the can pay it back Plus the interest on the loan	This is a contract to raise cash by selling a piece of property and then leasing it back form the buyer on a long-term basis.
There is no loss of control or ownership with grants. No dividends, interest or repayments have to be made (if conditions are meet).	It can be raised by - Retained Earnings - Profits put back into the business, Entrepreneur investing more of their money, Bringing a new partner into the business or Issuing (Selling) Shares	Debentures are long term fixed interest loans secured on an asset (Premises). There is no loss or control in the business.	This also the company to keep trading while also raising cash.
Main sources are form the LEO office (Small Firms), Enterprise Ireland (Exporting Firms), IDA Ireland (Foreign firms in Ireland) and The European Union		Security is usually required, and repayments must be made on time even if a profit is not made.	Celtic helicopter sold an aircraft to a Russian company for millions of euro and then leased it back of the Russian company

DEBT v EQUITY FINANCE

	DEBT FINANCE	EQUITY FINANCE
Amount	Large amounts are available if the risk is low and security is available	Large amounts are available depending how attractive the business is
Cost	Is expensive interest and principal must be paid on time. These can be high	Is cheap as payment of dividends to ordinary shareholder are optional (But if not paid the share price will drop leading to unhappy shareholders)
Ownership control	No loss of control or ownership	Control is lost (diluted)
Risk	High risk (Highly Geared) the interest must be repaid even if a profit is not made	Low risk (low geared) only the providers of the equity will loss out

REASON FOR STAYING SMALL

ADVANTAGES	DISADVANTAGES
1. Easier to manage and keep control	1. Cost tend to be higher
2. Less stress	2. Profits tend to be smaller
3. Staff relations and communications are easier	3. Less opportunity in investing for the business
4.There is a stronger sense of team spirit and motivation	4. Small firms have to struggle more
5. A better personal service	
6. Many businesses can remain competitive	

IMPLICATION TO THE BUSINESS OF EXPANSION

1. **Profitability** - short term profits may fall (Costs) but in the long term the company can benefit from economies of scale
2. **Organizational Structure** - This may be changed. The bigger the company become the harder it is to manage
3. **HRM** - Recruiting more staff (Or redundancies – Merger or acquisition) A HR manager may need to be employed
4. **Marketing** - Expanding business can offer larger range of products. They can also spend more on marketing and develop new products. Marketing also become complex as there are different marketing mixes
5. **Legal** - Business may change their legal structure (Sole trader to Limited company)
6. **Finance** - Need to raise finance to expand. Larger companies will find it easier to raise new finance
7. **Ownership** - New owners/shareholders may come into the business this may