BUSINESS EXPANSION

REASONS FOR A BUSINESS TO EXPAND

These are
1. Defensive (they have to)
2. Aggressive (They want to)
3. Psychological (Its in their mind)

1

BUSINESS EXPANSION

DEFENSIVE

1. Reduce costs
2. Survive Economic shocks
3. Reduce risk
4. Protect raw material suppliers
5. Protect labour suppliers
6. Eliminate competition

2

BUSINESS EXPANSION

REDUCE COSTS (1)
(Defensive)

1. To help Generate economics of scale. These are the benefits that a business gets as it becomes larger and more efficient.
2. It helps to reduce the average cost thus a more competitive price can be charged.

Economics of Scale – This when the unit price of a product reduces as you buy more of it.

3

BUSINESS EXPANSION

ECONOMICS OF SCALE

Definition

This when the unit price of a product reduces as you buy more of it.

4

BUSINESS EXPANSION

SURVIVE ECONOMIC SHOCKS (2)
(Defensive)

bigger = stronger and business are able to survive upset in the business environment

For example - Recession, increase taxation in a country

5

BUSINESS EXPANSION

REDUCE RISK (3)
(Defensive)

1. A firm may produce new products and/or enter new markets. This is to spread the risk (not have all eggs in one basket).
2. This is known are diversification

For Example - Toyota's products include trucks, cars, forklifts

6

BUSINESS EXPANSION

PROTECT RAW MATERIAL SUPPLIERS (4)
(Defensive)

1. Business may take over their supplier of raw materials. This is do they can secure their source of raw materials.
2. This is known as reverse integration.

For example - Fyffes purchase their own banana plantation

7

BUSINESS EXPANSION

PROTECT LABOUR SUPPLIERS (5)
(Defensive)

1. Larger firms can afford to recruit more qualified and experienced staff
2. They do this by offering better pay, conditions and promotion prospects

8

BUSINESS EXPANSION

ELIMINATE COMPETITION (6)
(Defensive)

1. Firms will often try to merge with or take over firms. They do this to eliminate the competition.
2. This means they the business gets more of the market share

9

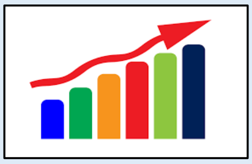
BUSINESS EXPANSION

AGGRESSIVE

1. Increase profits
2. Acquire new products

10

BUSINESS EXPANSION



INCREASE PROFITS (1)
(Aggressive)

1. As a firm grows it can make more use of it resources thus lowering costs and increasing profits.
2. If it grows enough it can gain a dominant/monopoly position in the market. EU competition can also stop this

For example – Paddy power taking over betting 365 in Australia

11

BUSINESS EXPANSION

ACQUIRE NEW PRODUCTS (2)
(Aggressive)

1. If a rival business, make a new product it can be quicker to take over that business than spend time developing a new product.
2. They may also expand to acquire new technologies

For example – Facebook acquiring whats app

12

BUSINESS EXPANSION

PSYCHOLOGICAL

1. Empire building
2, New challenges

13

BUSINESS EXPANSION

EMPIRE BUILDING (1)
(Psychological)

1. To try and create the largest business in their area, industry or Country.
2. Maslow Hierarchy of needs – esteem needs.

For example -Dermot Desmond

14

BUSINESS EXPANSION

NEW CHALLENGES (2)
(Psychological)

1. Many entrepreneurs need new projects/challenges.
2. This may be developing new products or takeover. This helps them becoming bored and restless

For example - Richard Branson Virgin Atlantic, Virgin Trains & Virgin Media

15

BUSINESS EXPANSION

METHODS OF EXPANSION

A business that wants to grow can do it in two ways
1. Organic Growth – a Firm expands gradually using existing products or developing new ones
2. Inorganic growth – Means forming a strategy with or by engaging in mergers and acquisitions of another business

16

BUSINESS EXPANSION

ORGANIC GROWTH

Definition

This is when a firm expands gradually using existing products or developing new ones

17

BUSINESS EXPANSION

INORGANIC GROWTH

Definition

This means forming a strategy with or by engaging in mergers and acquisitions of another business

18

BUSINESS EXPANSION

ORGANIC

Through this option a firm can expand in the following ways

1. Increase domestic sales
2. Exporting
3. Licensing
4. Franchising
5. Develop new product/Diversification

19

BUSINESS EXPANSION

INCREASE DOMESTIC GROWTH (1)
(Organic)

This is low risk because
1. The product is already known,
2. There's now extra cost for R&D,
3. Skilled Staff.

However, Ireland is a small country so growth many be limited and expansion may be slow

20

BUSINESS EXPANSION

EXPORTING (2)
(Organic)

1. Exporting means selling goods and service outside of Ireland (the money stays in Ireland).
2. It can be very profitable and does not affect ownership.
3. It can take years to generate profits (Training, Marketing Mix, Product methods). The risk is also greater – unknown markets

21

BUSINESS EXPANSION

EXPORTING

Definition

1. Exporting means selling goods and service outside of Ireland (the money stays in Ireland).
2. It can be very profitable and does not affect ownership

22

BUSINESS EXPANSION

LICENSING (3)
(Organic)

1. This means allowing other firms to sell a product in return a license fee or royalty.
2. It can be a fast low cost, low risk expansion but there can be loss of profits and control
3. For the firm getting the license it can be a low expansion method, but a license fee must be paid
For Example – use a Disney characte

23

BUSINESS EXPANSION

FRANCHISING (4)
(Organic)

1. This means renting (franchiser) of a complete business idea including name logo and products to someone else (Franchisee).
2. It is growing in popularity in the retailing and service industry.

For Example – Camlie Healthy Takeaway

24

BUSINESS EXPANSION

DEVELOP NEW PRODUCT
DIVERSIFICATION (5)
(Organic)

1. Used when a product is coming to the end of its life cycle.
2. It is the increasing the range of products/ services offered by a business.
3. It's a popular method of expansion but it is high cost and risk of products failing.
4. It can also take a long time to get from a development stage to a launching stage
For example - Apple

25

BUSINESS EXPANSION

INORGANIC

1. Form a strategic alliance
2. Acquire/takeover
3. Mergers

26

BUSINESS EXPANSION

FORM A STRATEGIC ALLIANCE (1)
(Inorganic)

1. This occurs when two or more firms agree to co-operate a project
2. The remain separate but share skills and resources.
3. It can be a fast & low risk method of expansion. Profits and control may be shared.
4. Greater communication and shared decision making may slow down expansion
For example – Nike and Ben and Ger

27

BUSINESS EXPANSION

ACQUIRE/TAKEOVER (2)
(Inorganic)
1. This occurs when one firm buys at least 51% of voting shares of another firm and gain majority control.
2. Take over are hostile if it takes place against the best wishes of management.
3. Subsidiaries are companies where another company owns 50% or more of their shares

For Example - Ryanair acquires the UK budget airline Buzz

28

BUSINESS EXPANSION

MERGER (3)
(Inorganic)

1. Occurs when the manager and shareholders of two companies of roughly equal size agree to voluntarily join together to form a single firm.
2. The state competition Authority/EU commission may investigate proposed takeover and mergers
For example - AIB was formed from a merger of smaller banks

29

BUSINESS EXPANSION

FINANCE FOR EXPANSION

These include the following –
1. Grants
2. Equity
3. Debt finance (Loans & Debentures)
4. Sale and lease back

30

BUSINESS EXPANSION

GRANTS (1)
(Finance)
1. This is money given to a business that doesn't have to be paid back (if it is used for the intended purpose)
2. There is no loss of control or ownership with grants.
3. No dividends, interest or repayments have to be made (if conditions are meet).
For Example form the Local Enterprise boards (Small Firms), Enterprise Ireland (Exporting Firms), IDA Ireland (For

31

BUSINESS EXPANSION

EQUITY (2)
(Finance)
1. This is finance that is provided by the owners of the business.

For example
- 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

32

BUSINESS EXPANSION

DEBT FINANCE (3)
(Finance)
1. Debentures are long term fixed interest loans secured on an asset (Premises).
2. There is no loss or control in the business.
3. Security is usually required, and repayments must be made of time even if a profit is not made.

For example - Largo foods spent 62m taking over rival Tayto crisps.

33

BUSINESS EXPANSION

SALE AND LEASE BACK
1. 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.
2. This allows the company to keep trading while also raising cash.

For example - Celtic helicopter sold an aircraft to a Russian company for millions of euro and then leased it back of the Russian company

34

BUSINESS EXPANSION

DEBT V EQUITY (1)

Amount
EQUITY - Large amounts are available
DEBT - Large amounts available if risk is low
Cost
EQUITY - Is cheap, payment of dividends are optional
DEBT - Is expensive interest and principal must be paid on time.

35

BUSINESS EXPANSION

DEBT V EQUITY (2)

Ownership/ Control
EQUITY - Control is lost (diluted)
DEBT - No loss of control or ownership

Risk
EQUITY - Low risk (low geared) only the providers of the equity will loss out
DEBT FINANCE - High risk (Highly Geared) the interest must be repaid even if a profit is not Made

36

BUSINESS EXPANSION

IMPLICATION FOR EXPANSION (1)

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

37

BUSINESS EXPANSION

IMPLICATION FOR EXPANSION (2)

4. Marketing - can offer larger range of products, can also spend more on marketing and develop new products. Marketing is complex due to 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 shareholders may come into the business resulting in dissati

38

BUSINESS EXPANSION

ADVANTAGES OF STAYING SMALL

1. Easier to manage and keep control
2. Less stress
3. Staff relations and communications are easier
4. There is a stronger sense of team spirit and motivation
5. A better personal service
6. Many businesses can remain competitive

39

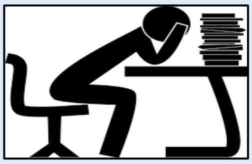
BUSINESS EXPANSION

DISADVANTAGES OF STAYING SMALL

1. Cost tend to be higher
2. Profits tend to be smaller
3. Less opportunity in investing for the business
4. Small firms have to struggle more

40

PAST QUESTIONS

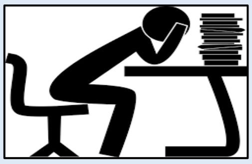


OUTLINE THE BENEFITS OF STRATEGIC ALLIANCE (1)

1. It is a voluntary agreement.
2. Each party is a separate legal entity.
3. Skill & risks are shared 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.

41

PAST QUESTIONS

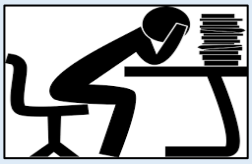


OUTLINE THE RISKS OF STRATEGIC ALLIANCE (2)

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

42

PAST QUESTIONS



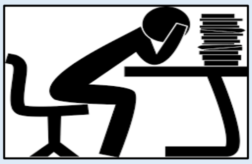
EXPLAIN A METHOD OF INORGANIC BUSINESS EXPANSION (1)

A merger

1. A friendly amalgamation or joining together of two or more firms for their mutual benefit, under a common name.
2. A new legal entity is formed Avonmore Co-op & Waterford = 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'

43

PAST QUESTIONS



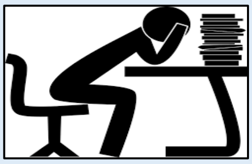
EXPLAIN A METHOD OF INORGANIC BUSINESS EXPANSION (2)

A takeover

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

44

PAST QUESTIONS



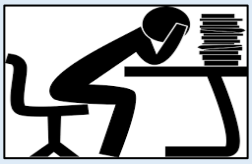
EXPLAIN A METHOD OF INORGANIC BUSINESS EXPANSION (3)

A Strategic alliance

1. When two or more firms agree to co-operate and share resources and expertise with each other for the mutual benefit
2. The firms remain completely independent legally and 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.

45

PAST QUESTIONS

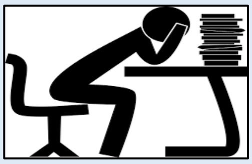


OUTLINE ADVANTAGES OF FRANCHISING AS A METHOD OF EXPANSION.

1. low capital investment by the franchisor
2. more rapid expansion. without incurring the overheads and costs
3. The person operating will be "attending to business" as much as they would.
4. Economies of scale exist. command deals with various suppliers.
5. Franchisor profits are generated on a much lower capital investment

46

PAST QUESTIONS

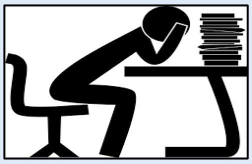


OUTLINE DISADVANTAGES OF FRANCHISING AS A METHOD OF EXPANSION.

1. Control is lost over the day-to-day management of the franchise businesses.
2. The reputation of the business could be affected by the actions of one franchisee
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.

47

PAST QUESTIONS

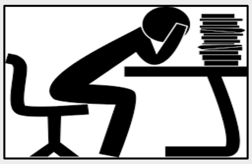


THE DIFFERENCE BETWEEN A MERGER AND A STRATEGIC ALLIANCE.

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 = Avonmore Foods plc and Waterford Foods plc.
A strategic alliance: Two or more independent firms agree to co-operate and share resources for a mutual benefit. The firms remain completely independent legally and each firm maintains its own separate trading identit
Mazda and Toyota sharing technology r

48

PAST QUESTIONS

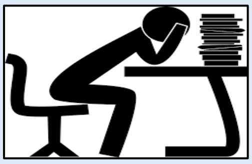


DISCUSS THE POSSIBLE REASONS FOR BUSINESS EXPANSION AND GROWTH (1)

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. l

49

PAST QUESTIONS

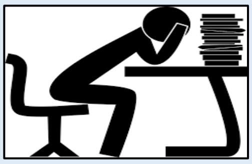


DISCUSS THE POSSIBLE REASONS FOR BUSINESS EXPANSION AND GROWTH (2)

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.

50

PAST QUESTIONS

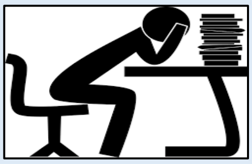


DISCUSS THE BENEFITS OF A MERGER AS A METHOD OF EXPANSION

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

51

PAST QUESTIONS

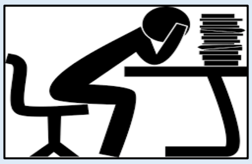


DISCUSS THE RISKS OF A MERGER AS A METHOD OF EXPANSION

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

52

PAST QUESTIONS

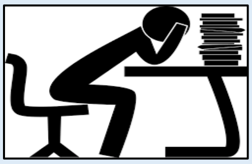


DIFFERENCE BETWEEN DEBT & EQUITY AS SOURCES OF FINANCE FOR EXPANSION (1)

Equity Capital
Control - The issue of shares may dilute control
Interest Repayments/Dividends - There is no obligation to ordinary shareholders.
Risk - The business risk would be lower with less debt (lowly geared.)
Collateral - No security will be required
Tax Implications. - Dividends to or

53

PAST QUESTIONS

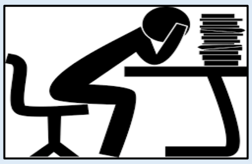


DIFFERENCE BETWEEN DEBT & EQUITY AS SOURCES OF FINANCE FOR EXPANSION (2)

Debt Capital
Control - Debt capital used to finance the business will not impact on control
Interest Repayments/Dividends - Fixed Interest repayments must be made
Risk - Fixed interest repayments must be made regardless of profitability
Collateral - may have to supply security
Tax Implications. – Interest payme

54

PAST QUESTIONS

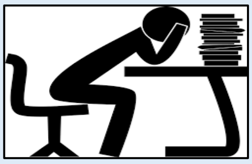


BENEFITS OF FRANCHISING AS A METHOD OF EXPANSION

Benefits
1. low capital investment
2. Franchising is a rapid expansion.
3. An owner is more attentive than 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

55

PAST QUESTIONS

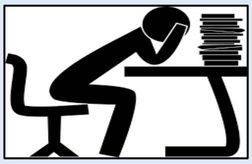


RISKS OF FRANCHISING AS A METHOD OF EXPANSION

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.

56

PAST QUESTIONS

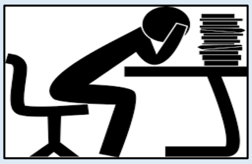


EXPLAIN THE TERM 'BUSINESS ALLIANCE'.

1. 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
2. or to complete a specified project, while all parties maintain their separate identities.

57

PAST QUESTIONS



THE ADVANTAGES OF AN ALLIANCE AS A FORM OF BUSINESS EXPANSION.

1. Cost effective method of expansion – resources are shared
2. Reduces risks associated with expansion for each partner as risks are shared
3. Expertise can be 'recruited' through alliance –
4.Provides access to an extended business network and market

For examples: Disney and Mc Don

58