How to use: Learn, cover, write and check

Topic 2.1.1 Business Growth

Key Vocabulary

Organic (internal) Growth – growing through internal growth

Innovation – adapting existing products to develop improved versions

R&D – research and development. The activities to research and develop new products

Marketing Mix – the 4 Ps: Price, Place, Product, Promotion

Inorganic (external) growth – growing through mergers or takeovers

Merger – when two firms mutually join together

Takeover – when one firm buys another one

PLC – Public Limited Company. A business that sells its shares on the stock exchange

Retained profit – profit left after the business has paid dividends and taxation

Selling assets – the sale of items the business owns

Loan capital – finance received from a bank when taking out a loan

Share capital – the money invested into a business by shareholders

Core Knowledge

A business can grow internally by expanding its own activities, i.e. opening more stores, targeting new markets or increasing the range of products they offer.

External growth is quicker but more expensive and riskier.

Mergers & takeovers could be between competitors, suppliers, customers or unrelated businesses.

A business may choose to finance growth through becoming a PLC and selling shares on the stock exchange to the public.

A quicker way to open lots of outlets is through offering franchises – when you allow entrepreneurs to use your business name.

Larger firms benefit from economies of scale (e.g. bulk buying from suppliers), so can reduce their unit costs.

Growing too large can increase costs and lead to diseconomies of scale (e.g. more expenses due to more managers needed so an increase in salaries)

Be aware:

- Private Limited Companies can only sell shares to those invited e.g. venture capitalists or friends/family
- Not all takeovers and mergers are allowed to happen. Some may be discouraged due to businesses becoming too powerful, meaning customers can lose out on choice/prices etc.

Wider Business World

The planned merger of Sainsbury and ASDA – was not allowed

Iberia and British Airways merger

Sainsbury and Argos merger

Quote from the founder of Iceland "businesses can't stand still"

Synoptic Links

Ownership – knowing what a private limited company is

Sources of finance for small businesses – most of these are available for growing businesses too

Interest rates – the rate will affect the cost of borrowing

Economic influences – the state of the economy will impact whether a business can grow

Marketing Mix