2.1 Growing the Business

Business Growth

Internal growth (organic growth) - when a business grows by expanding its own activities. It is low risk, but slow. They do this by:

- Targeting new markets
- Developing new products

External Growth (inorganic growth) - when a business merges or takeover another business. This is higher risk, but faster

Merger—when two businesses join together to form a new larger business

Takeover—when an existing form expands by buying more than half the shares in another business

There are four ways a business can merge or takeover another business:

- Join with a supplier
- Join with a competitor
- Join with a customer
- Join with an unrelated business

Sources of Finance for Large Businesses

Internal	External
Retained Profits - profits the owners have put back into the business	**Loan Capital** - money borrowed from the bank, paid back with interest
Selling Assets—business can sell fixed assets that are no longer in use	**Share Capital** - If a business becomes a limited company they can sell shares

Public Limited Company—Shares in the company are traded on the stock market so they can be bought and sold by anyone. They have limited liability

The extra capital can help the business expand

Changing Aims and Objectives

As a business grows, its aims and objectives will change. They could:

- Change if they aim to survive (earlier stages) or grow (more established business)
- Change the size of their workforce
- Enter or exit new markets
- Change the size of their product range

Reasons for changing aims and objectives:

Internal Reasons	External Reasons
Business performance	New legislation
Management changes	Changes in market conditions
New technology	Changes in technology

Economies of Scale

Economies of Scale	Diseconomies of Scale
When a business expands, its costs may decrease per unit produced. This is called economies of scale. They can happen because: • Larger businesses can buy raw materials in bulk, so get them at a cheaper price per unit • Larger firms can afford to operate and purchase advanced machinery that are faster and cheaper to run • A factory that is 10x as big wont be 10x as expensive—the law of dimensions	When a business expands, it could cause some costs to increase per unit. Such as: • It is harder and more expensive to manage a large business • Bigger businesses have more people so lines of communication are longer, employees lower in the hierarchy may be demotivated and be less efficient • The production process might become complicated and difficult to coordinate.

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Ethical Considerations

Ethics — the moral principles of right and wrong

Businesses may act unethically by:

- Forcing staff to work excessively long hours
- Forcing staff to work for low pay
- Buying raw materials from businesses that exploit staff
- Lying in marketing about their products or competitors

Advantages and Disadvantages of acting ethically:

Advantages	Disadvantages
Can give competitive advantage as a unique selling point	Can be expensive for the business
May encourage investment	Can be difficult to find suppliers
Positive brand image	May not make much profit on products

Globalisation

Globalisation — when businesses and countries become more connected because of better technology, travel and communication

Globalisation can have many impacts on business:

- Imports: businesses have a larger, global, market to buy from. Can buy supplies cheaply
- Exports: Easy to export so a larger market to sell to
- Location: easier for businesses to locate and operate abroad
- Multinationals: when a company operates in a new country, businesses already in that country need to make sure they are able to compete.

There are barriers to international trade:

- **Tariffs**—taxes on goods being exported or imported
- **Trade blocs**—groups of countries that have little or no trade barriers between them (such as the European Union). If you are outside of these blocs it's difficult to compete with the businesses inside.

How businesses can compete internationally:

- Use e-commerce to sell goods online
- Adjust the marketing mix to suit a given country

Environmental Influences

Businesses can have a negative impact on the environment. Their factories, trucks and machinery can cause air, water and noise pollution.

Businesses can use up non-renewable resources such as coal and oil

Sustainability—acting in a way that will not harm the earth for the future

Businesses can be sustainable by:

- Using less packaging and recycling
- Disposing of hazardous waste in the correct way
- Using efficient machinery
- Using renewable energy sources such as solar

Benefits of being environmentally friendly:

- Positive brand image
- Being "green" can be a USP and give competitive advantage

However, being environmentally friendly can be expensive, such as buying new energy efficient equipment

A stakeholder that persuades businesses to be more environmentally friendly are pressure groups. They can run campaigns on businesses that are not environmentally friendly and ruin their brand image