Chapter 3: Enterprise/Business growth and Sizes

Key terms

1. Entrepreneur: is a person who organises, operates and takes risk for a new business venture.
2. Business plan: is a document containing the business objectives and important details about the operations, finance, and owners of the new business.
3. Capital employed: is the total value of capital used in the business.
4. Internal growth: occurs when business expands its existing operations.
5. External growth: is when a business takes over or merges with another business. It is often called integration as one firm is integrated into another one.
6. Merger: is when the owners of two businesses agree to join their firms together to make one business.
7. Takeover or acquisition: is when one business buys out the owners of another business which then becomes part of the predator business(the firm which has taken it over).
8. Horizontal integration: is when one firm merges with or takes over another one in the same industry at the same stage of production.
9. Vertical integration: is when one firm merges with or takes over another one in the same industry but at a different stage of production. Vertical integration can be backward or forward.
10. Conglomerate integration: is when one firm merges with or takes over a firm in a completely different industry. This is also known as diversification.

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1. Enterprise and entrepreneurship:

Entrepreneurs : person who organize/operate/take risk of new business such as Steve Job/ Mark Zeckerberg

Advantages	Disadvantages
1. A sole trader has few regulations. 2. Owner makes decisions easier without discussion with others. 3. There will be less conflict and faster in making decisions. 4. The owner gains all profits. 5. There will be close contacts to customers and employees. 6. There is a quick response to demand and increased morale of employees.	1. There is no ideas and discussion with partners. 2. It is unlimited liabilities. If the business fails the owner may lose money more than initially invested in the business. 3. It is difficult to find sources of finance. 4. If the owner passes away or unable to work, the business cannot be transferred to others.

Characteristics of successful entrepreneurs

1. Hard working
2. Risk taker
3. Creative
4. Optimistic
5. Self-confidence
6. Innovative
7. Independent
8. Effective communicator

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Why and how governments support business start-ups

Government supports business by grants and training schemes.

1. Reducing unemployment.
2. Increasing competition by helping new and small businesses to start up.
3. Increasing output.
4. Supporting social enterprise which generates benefits to the society.
5. Helping business to grow.

How a business plans assist entrepreneurs

Business plan: is a document containing the business objectives and important details about the products, cash flow, business costs, location, and resources required.

The benefits of business plan

1. To help gain finance; e.g. when a business would like to borrow money from a bank, the bank manager will require a detailed business plan.
2. To carefully plan and to reduce risk.

2. The methods and problems of measuring business size

1 Number of employees

Limitation:

- Some companies are capital-intensive. They might hire less employees but there will be a large scale of production.

2 Value of output

Limitation:

- The price of the product can be varied.
- Some companies might hire high employees but they sell cheap products.

3 Value of sales

Limitation:

- It cannot compare the size of businesses that sell different products. It is difficult to compare e.g. bakery shops and luxury handbags.

4 Value of capital employed (total value of capital used in the business)

Limitation:

- Some companies use labor-intensive which use little capital equipment.

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3. How business growth:

1. **Internal growth:** expanding business without merger and acquisition with other companies. E.g. selling products in other countries, increasing branches.

2. **External growth:** merger and acquisitions with other companies:

1) Horizon Integration : combine companies with ***same industries + same stages***

Advantages	Disadvantages
1. It reduces competition in the market. 2. A business can take advantage of economies of scale resulting in lower average cost. 3. The combined business can get bigger market share.	1. The combined business may experience diseconomies of scale. A large business can be difficult to control. 2. It is difficult to integrate the two businesses with different management structures and culture.

2) Vertical Integration: combine companies with ***same industries + different stages***

2.1) Backward Vertical Integration: Firm integrates with another firm at the earlier stage of production. Eg. Coffee manufacture + Coffee farm

Advantages	Disadvantages
1.To ensure an adequate supply of good quality raw materials at reasonable price. 2.The business can get profit made by the supplier. 3.It is more certain over the supply of raw materials and cost. 4.To restrict suppliers to supply raw materials to rival firms.	1.There is no competition between suppliers anymore. It may lead to higher raw material costs. 2.There is higher risk from adverse change in supplier as it will affect the whole business. 3.It may cause diseconomies of scale from being a large firm.

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2.2) Forward Vertical Integration: Firm integrates with other firms at the next stage of production. Eg. Coffee manufacture + Coffee shop

Advantages	Disadvantages
1.To ensure that there are sufficient outlets. 2.To ensure that products are stored and displayed well in high quality outlets. 3.The business can control after sale service and marketing and get customers preference. 4.The business can get profit made by retail shops. 5.The business can prevent retailers from selling competitor's products.	1.There is a higher risk from holding high fixed costs. The fortunes of business are tied to the distribution system. 2.Processes are independent then a slight disruption will affect the whole. 3.It may cause diseconomies of scale from being a large firm.

2.3) Conglomerate integration: combine companies with ***completely different industries and different stages***

Advantages	Disadvantages
1.A merger spreads a business's risks. If the sale revenue from a product falls, the business still has revenue from other products. 2.It enables a merger to grow even if the market of one of its products is declining. 3.A merger is being larger, it can borrow more money at lower interest.	1.It may cause diseconomies of scale from being a large firm. 2.A merger may lack experience in new business. It has a chance to fail.

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4. Why some businesses grow and others remain small:

Why the owners of a business may want to expand the business?

- To get higher profit
- To take advantages of economies of scales
- To get bigger market share
- To have higher status and prestige for owners and managers

5. Problems linked to business growth and how these might be overcome?

Problems from expansion	Solution
1.Difficulty in controlling and diseconomies of scale	1.Operating the business in small units or decentralisation.
2.Poor communication	2. Operating the business in small units. Using up-dated IT equipment and telecommunications.
3.It can cause financial problems from huge expansion costs.	3. Using profits to grow.
4.Problems from different cultures and management styles.	4. Introducing a different style of management requires good communication with the workforce.

6. Why do some businesses remain small?

6.1 Owner's objective

: Owners would like to avoid the stress or worry of running a large business.

6.2 Small market size

: Total number of customers may be small. Eg. luxuries car, rural areas

6.3 Personal services or specialized products

: Some industries offer personal services which require close relationships with customers.

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7. Why do some businesses fail?

1. Businesses may have poor management from the lack of experience.
2. Businesses are not responding effectively to new technology or change in customer demand.
3. Businesses may have poor financial management and it can cause the lack of liquidity and default.
4. Some businesses expand too fast and they might face financial problems.
5. New business may have poor planning or inadequate research.

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