

CHAPTER 2 : Sizes of business

Key terms

1. Backward vertical integration : a joining together of two or more firms into one firm, where the purchaser merges with one or more its suppliers
2. Conglomerate integration : a joining together into one firm of two or more firms producing unrelated products
3. Demerger : when a firm split into two or more independent businesses
4. Forward vertical integration : a joining together of two or more firms into one firm, where the supplier merges with now or more its buyers
5. Horizontal integration : a joining together of two or more firms in the same industry at the same stage of production
6. Merger or takeover the joining together of two or more firms under common ownership
7. Organic growth : a firm increasing its size through investment in capital equipment or an increased labour force
8. Vertical integration : a joining together into one firm of two or more firms at different production stages in the same industry

1. Why firms become larger?

- Higher market share
- Higher profit
- Economies of scale
- Availability of credit

2. Some firm remain small?

- The size of market may be small
- Business may involve specialised skills
- Capital is limited
- Government need more competition in the market
- Personal choice of owners
- Diseconomies of scales when being large

3. How business grow ?

Business Growth

Internal Growth

: Business growth without acquiring with another business

- Increase variety of product
- Change packaging
- Change design or feature
- Increase customer based

External Growth

: A business growth with acquiring with another business

1. **Horizontal integration** : Same industry and same stage
2. **Vertical integration** : Same industry and different stage
 - : Backward vertical integration
 - : Forward vertical integration
3. **Conglomerate integration**: different industry

4. Demerger

: When a firm split into two or separate parts to create two or more firms

Reasons

- Lack of synergies
- Diseconomies of scale when there is bigger firm
- Higher asset price after demerger
- Focused companies

Advantages and disadvantages of demerger

Business	Worker	Consumer
<p><u>Advantages</u></p> <ul style="list-style-type: none"> • Increase specialisation • Greater efficiency <p><u>Disadvantages</u></p> <ul style="list-style-type: none"> • If firm emerge, firm cannot achieve economies of scale or cannot transfer knowledge between firms 	<p><u>Advantages</u></p> <ul style="list-style-type: none"> • Senior manager may gain promotion as it splits to many companies <p><u>Disadvantages</u></p> <ul style="list-style-type: none"> • Workers may lose jobs 	<p><u>Advantages</u></p> <ul style="list-style-type: none"> • It can brings to more efficiency <p>: Average cost will be lower</p> <p><u>Disadvantages</u></p> <ul style="list-style-type: none"> • Firm might focus on profit, price will be higher and reduce variety of products