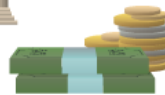




Growth of Firms

Chapter 24
SdP



Homework

AT 1000 1000
Economics in practice: Growth
in the economy of Nigeria
page 100, 101, 102, 103

Why do firms seek growth?

- The profit motive
- The cost motive
- The market power motive
- The risk motive
- Survival

Profit motive

Businesses grow to increase their profits. This can be done by increasing sales or reducing costs. Growth can also be achieved by increasing the number of businesses in the industry.

The cost motive

Businesses grow to reduce their costs. This can be done by increasing sales or reducing costs. Growth can also be achieved by increasing the number of businesses in the industry.

The market power motive

Businesses grow to increase their market power. This can be done by increasing sales or reducing costs. Growth can also be achieved by increasing the number of businesses in the industry.

The risk motive

Businesses grow to reduce their risk. This can be done by increasing sales or reducing costs. Growth can also be achieved by increasing the number of businesses in the industry.

Survival

Businesses grow to survive. This can be done by increasing sales or reducing costs. Growth can also be achieved by increasing the number of businesses in the industry.



Limitations to growth

- Limited market
- Lack of finance
- Aim of the entrepreneur
- Low barriers to entry
- Diseconomies of scale

Any question?

Task:
write the key terms
in your text book

External growth

External growth is the process by which a firm expands its operations outside its current boundaries.

Four Types of Mergers

- 1. Horizontal merger: A merger between firms in the same industry.
- 2. Vertical merger: A merger between firms at different stages of the production process.
- 3. Conglomerate merger: A merger between firms in different industries.
- 4. Reverse takeover: A merger where a smaller firm acquires a larger firm.

Examples of organic growth

Organic growth is the process by which a firm expands its operations within its current boundaries. Examples of organic growth include: new product development, market penetration, and diversification.

How do Firms Grow?

Organic growth

Organic growth is the process by which a firm expands its operations within its current boundaries. Examples of organic growth include: new product development, market penetration, and diversification.

Acquisitive growth

Acquisitive growth is the process by which a firm expands its operations by acquiring other firms. Examples of acquisitive growth include: horizontal acquisition, vertical acquisition, and conglomerate acquisition.

Organic growth

Organic growth is the process by which a firm expands its operations within its current boundaries. Examples of organic growth include: new product development, market penetration, and diversification.

Acquisitive growth

Acquisitive growth is the process by which a firm expands its operations by acquiring other firms. Examples of acquisitive growth include: horizontal acquisition, vertical acquisition, and conglomerate acquisition.

Organic growth

Organic growth is the process by which a firm expands its operations within its current boundaries. Examples of organic growth include: new product development, market penetration, and diversification.

Acquisitive growth

Acquisitive growth is the process by which a firm expands its operations by acquiring other firms. Examples of acquisitive growth include: horizontal acquisition, vertical acquisition, and conglomerate acquisition.

Organic growth

Organic growth is the process by which a firm expands its operations within its current boundaries. Examples of organic growth include: new product development, market penetration, and diversification.

Acquisitive growth

Acquisitive growth is the process by which a firm expands its operations by acquiring other firms. Examples of acquisitive growth include: horizontal acquisition, vertical acquisition, and conglomerate acquisition.

Organic growth

Organic growth is the process by which a firm expands its operations within its current boundaries. Examples of organic growth include: new product development, market penetration, and diversification.

Acquisitive growth

Acquisitive growth is the process by which a firm expands its operations by acquiring other firms. Examples of acquisitive growth include: horizontal acquisition, vertical acquisition, and conglomerate acquisition.

Organic growth

Organic growth is the process by which a firm expands its operations within its current boundaries. Examples of organic growth include: new product development, market penetration, and diversification.

Acquisitive growth

Acquisitive growth is the process by which a firm expands its operations by acquiring other firms. Examples of acquisitive growth include: horizontal acquisition, vertical acquisition, and conglomerate acquisition.

Organic growth

Organic growth is the process by which a firm expands its operations within its current boundaries. Examples of organic growth include: new product development, market penetration, and diversification.

Acquisitive growth

Acquisitive growth is the process by which a firm expands its operations by acquiring other firms. Examples of acquisitive growth include: horizontal acquisition, vertical acquisition, and conglomerate acquisition.

Organic growth

Organic growth is the process by which a firm expands its operations within its current boundaries. Examples of organic growth include: new product development, market penetration, and diversification.

Acquisitive growth

Acquisitive growth is the process by which a firm expands its operations by acquiring other firms. Examples of acquisitive growth include: horizontal acquisition, vertical acquisition, and conglomerate acquisition.

Organic growth

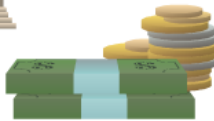
Organic growth is the process by which a firm expands its operations within its current boundaries. Examples of organic growth include: new product development, market penetration, and diversification.





Growth of Firms

Chapter 24
SdP



Homework

Activity sheet

Economics in practice: Textbook
Institutional Economics of Capitalism,
page 100 and book

Why do firms seek growth?

- The profit motive
- The cost motive
- The market power motive
- The risk motive
- Survival

The market power motive

Firms may wish to grow to increase their market power by gaining a higher market share and thus a higher profit margin.

The firm's strategy is to gain a higher profit margin and thus a higher profit margin.

Profit motive

Firms seek growth to increase their profit margin and thus a higher profit margin.

The cost motive

Firms seek growth to reduce their costs and thus a higher profit margin.

Firms seek growth to reduce their costs and thus a higher profit margin.

Survival

Firms seek growth to survive in a competitive market.

Firms seek growth to survive in a competitive market.

Limitations to growth

- Limited market
- Lack of finance
- Aim of the entrepreneur
- Low barriers to entry
- Diseconomies of scale

Any question?

Task:
write the key terms
in your text book

External growth

Can be a rapid way for a firm to expand by acquisitions and mergers.

Firm merge usually with other firms on a similar business may occur.

However in the majority of cases mergers have failed to deliver the benefits that were expected and have not passed their costs. This is due to the diseconomies of scale in some of the merged firms such as a cultural fit, leadership, poor communication and the company's ability to change.

Four Types of Merger:

1. Horizontal merger: firms in the same industry and same stage of production merge.
2. Vertical merger: firms at different stages of production merge.
3. Conglomerate merger: firms in different industries and different stages of production merge.
4. Reverse merger: a private company acquires a public company.

Examples of organic growth

Handwritten notes: In 2008 and 2009, growth strongly due to a focus on a core business and a strong competitive advantage in a niche market.

Google is an example of organic growth. Their main source of revenue is from advertising, which has grown significantly since 2004. In 2008, Google's revenue was \$25.5 billion, up from \$18.1 billion in 2007. In 2009, Google's revenue was \$26.9 billion, up from \$25.5 billion in 2008.

How do Firms Grow?

Organic growth - internal

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

Internal growth is growth that comes from within the firm.

By the end of this chapter you should be able to:

... deScribe the main reaSonS for operating as a large buSineSS;

... deScribe the different methodS of growth;

... explain differenceS between different methodS of integration;

... deScribe the limitationS to growth.

Why do firms seek growth?

- The profit motive
- The cost motive
- The market power motive
- The risk motive
- Survival



Profit Motive

Businesses grow to achieve higher profits and raise returns for shareholders. Larger firms are more likely to make higher profits than smaller firms, by selling more output.

The cost motive

Economies of scale have the effect of improving both efficiency and profitability.

Economies of scale lower the average costs of production.

The market power motive

Firms may wish to grow to increase their market dominance giving them increased pricing power in markets.

The firm may also enjoy a higher profile and find it easier to establish its brand and attract high-quality staff.



The risk motive

Growth might be motivated by a desire to diversify production and/or sales so that falling sales in one market might be compensated by stronger demand in another market.

Survival

In some industries a small firm may not be able to stand up to the competition from larger rivals. It is often argued that firms need to grow in order to survive.



How do Firms Grow?

Organic growth - Internal

Increasing profit which can be achieved by either:

- the reduction of costs which can be achieved by reaching the minimum efficient scale & exploiting the economies of scale.
- increasing revenue by increasing market share or obtaining a dominant position in the market.

External growth

External growth is a faster way of achieving growth and does involve joining forces with another company.

- Takeover or acquisition (involves one company buying control of another);
- Merging (two firms agree to join together as one).



Examples of organic growth

-Poundland formed in 2000 and has grown strongly due to a focus on a constantly rotating product range sold at a single price point.

-Subway is an American restaurant franchise that mainly sells submarine sandwiches (subs) and salads. In 2001, Subway had just 52 franchised outlets in the UK, a tiny number compared with its 14,800 around the world in 2001. As of April, 2011, Subway operates 34,501 stores in 98 countries and territories. There are currently 1,500 Subway franchises in the UK and the company has recently announced a new objective to grow that to 3,000 outlets in the next three years.





External growth

Can be a rapid way for a firm to expand by acquisitions and mergers.

Firms merge amicably with other firms or a hostile takeover may occur.

However in the majority of cases mergers have failed to deliver the benefits that were expected and have not justified their costs. This is due to the diseconomies of scale in terms of 'people issues' such as a cultural fit, leadership, poor communications and the company's ability to change.

Four Types of Merger:

1) Horizontal Integration (same industry and same stage of production merge).

2) Vertical Integration (different stage of production)

Four Types of Merger:

- 1) Horizontal Integration (same industry and same stage of production merge).
- 2) Vertical Integration (different stage of production)
 - backward vertical integration (a firm joining with one that operates in the previous stage of production)
 - forward vertical integration (a firm joining with one that operates in the next stage of production)
- 3) A Conglomerate Merger (where the firms have no obvious relationship)
- 4) A Lateral Merger (type of horizontal integration in a way that are some similarities between the businesses)

Limitations to growth



Limited market

Lack of finance

Aim of the entrepreneur

Low barriers to entry

Diseconomies of scale



Any question?

Task:

write the key terms
in your text book



Homework

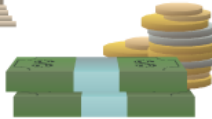
Activity Sheet

Economics in practice: Research
in motion takeover of Certicom,
page 108, text book



Growth of Firms

Chapter 24 SdP



Homework

Activity sheet

Economics in practice: Year 11/12
Institutional Economics of Capitalism,
page 100 textbook

Why do firms seek growth?

- The profit motive
- The cost motive
- The market power motive
- The risk motive
- Survival

The market power motive

Firms may wish to grow to increase their market power by gaining a high financial pricing power in the market.

The firm may develop a higher profit and that it can be used to pay for any other business goals.

Profit motive

A firm's growth is a way to increase its profit and to be able to pay for its other business goals.

The cost motive

As a firm grows, the effect of increasing its cost of production is reduced.

Survival

A firm's growth is a way to increase its profit and to be able to pay for its other business goals.



design by Dora Smith for Prezi