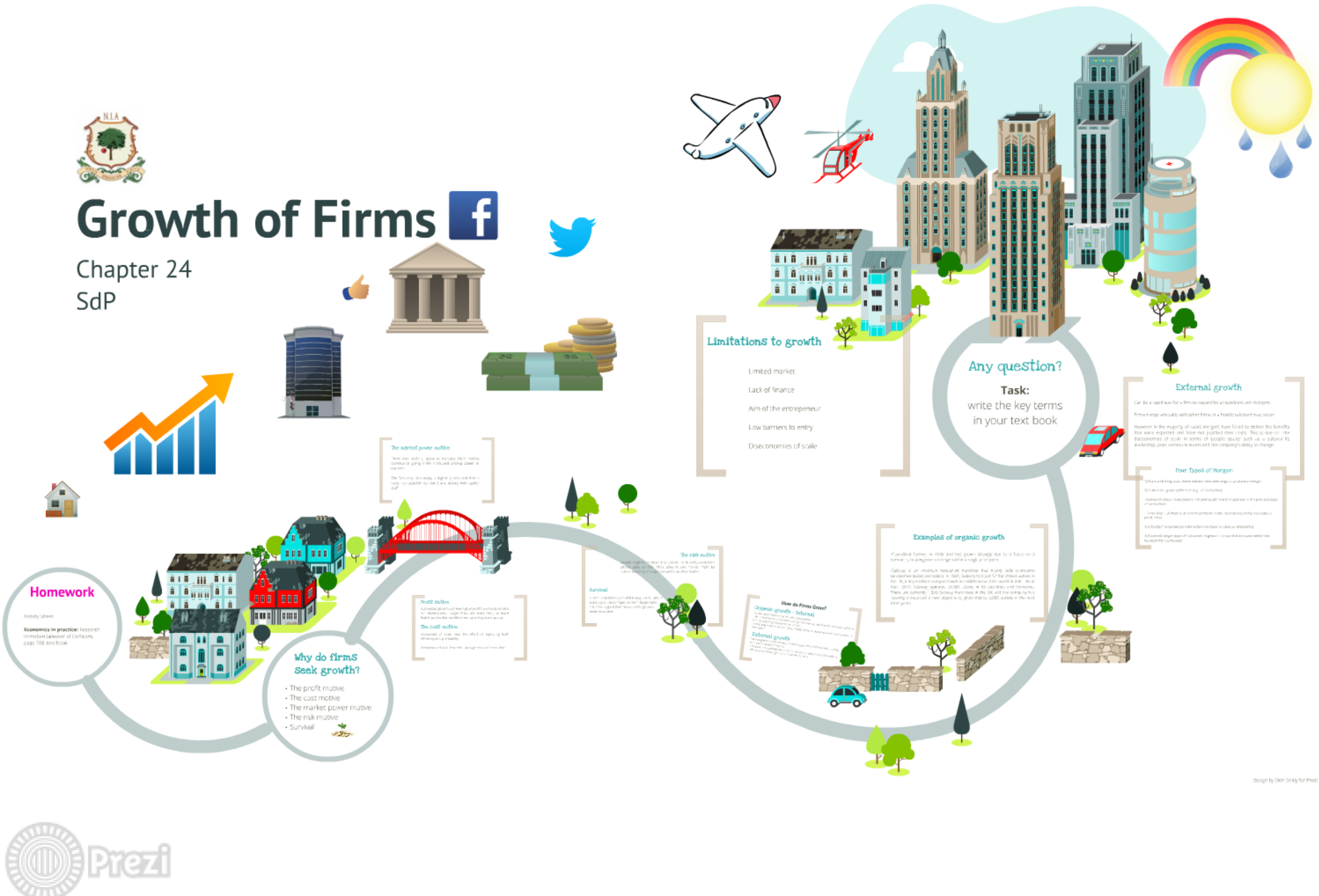

Growth of Firms
Chapter 24
SdP
Limitations to growth
Limited market
Lack of finance
Aim of the entrepreneur
Low barriers to entry
Diseconomies of scale
Any question?
Task:
write the key terms
in your text book
External growth
Examples of organic growth
Homework
Why do firms
seek growth?
• The profit motive
• The cost motive
• The market power motive
• The risk motive
• Survival


N.I.A
Growth of Firms
Chapter 24
SdP
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
Four Types of Merger
The market power motive
The risk motive
Survival
Profit motive
The cost motive
How do Firms Grow?
Organic growth - Internal
External growth
Examples of organic growth
Homework
Why do firms seek growth?
• The profit motive
• The cost motive
• The market power motive
• The risk motive
• Survival

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 entrepeneur

Low barriers to entry

Diseconomies of scale

Any question?

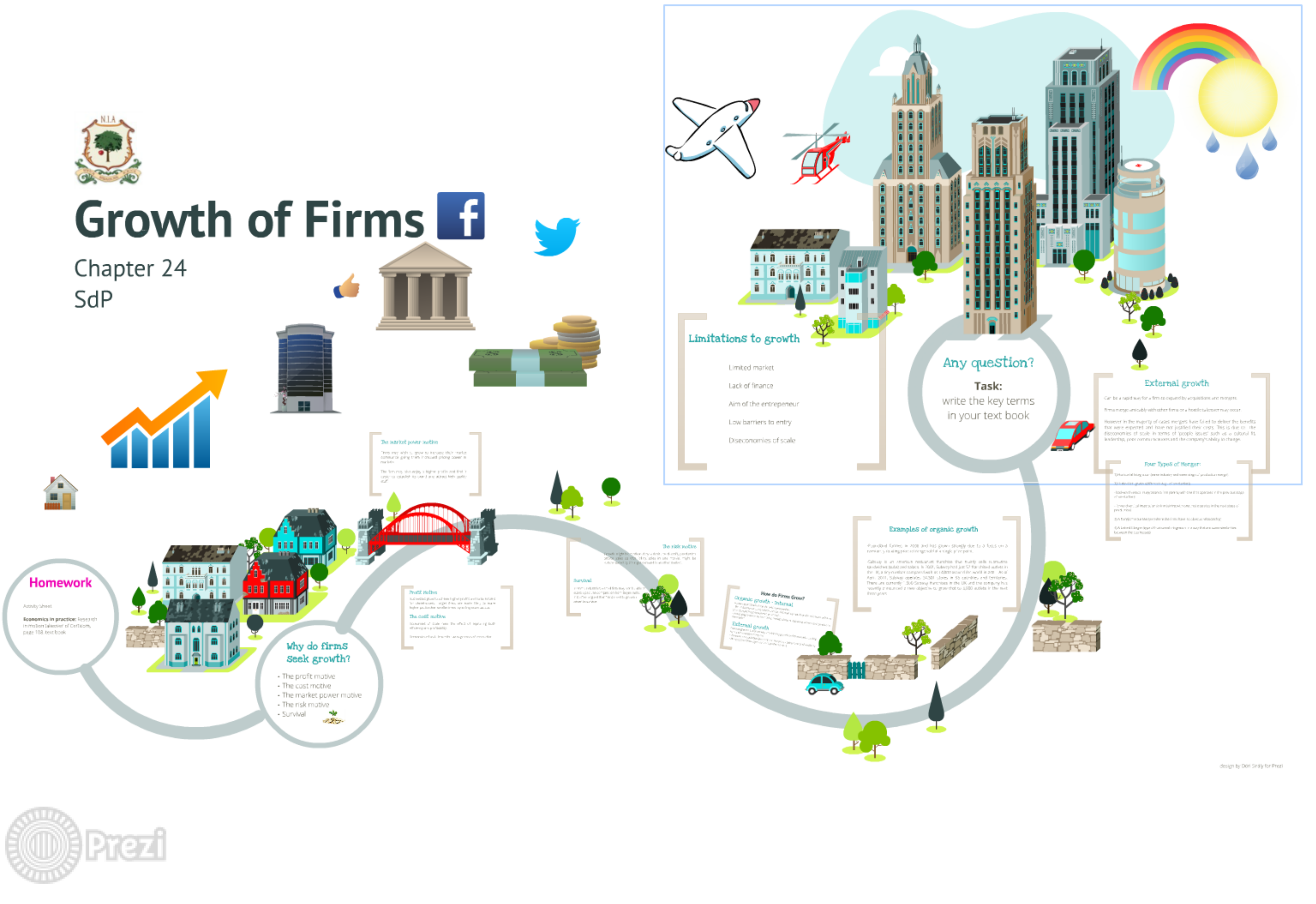
Task:

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
Limitations to growth
Limited market
Lack of finance
Aim of the entrepeneur
Low barriers to entry
Diseconomies of scale
Any question?
Task:
write the key terms
in your text book
External growth
Examples of organic growth
Homework
Why do firms seek growth?
The profit motive
The cost motive
The market power motive
The risk motive
Survival
Prezi