Business Growth

Why do businesses grow?

increase profit

improve market share

reduce competition

diversification/ spreading risks

benefits of economies of scale

How do businesses grow?

Internal growth

selling more of current products in existing markets, looking for new markets, launching new products, increasing advertising, promotion and investment

External growth

Mergers – joining with another company

Acquisitions – taking over another company

Horizontal integration – taking over another company on the same stage of the production process as you (Tesco taking over Aldi, Cadburys taking over Nestle) + bigger market share/ more profits

Backwards Vertical integration – taking over your supplier (Cadburys taking over a milk farm) + cheaper supply costs/ guaranteed supply – you might not be good at it

Forwards vertical integration – taking over the next stage of the process (farm opening their own shop/ Cadburys opening a shop rather than selling in Tesco + guaranteed place to sell your product /keep all the profit – expensive to own a shop

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Economies of scale – As a company gets bigger, it's cost per unit reduces

Technical economies of scale:

Large-scale businesses can afford to invest in expensive and specialist capital machinery. For example, a supermarket chain such as Tesco or Sainsbury's can invest in technology that improves stock control. It might not, however, be viable or cost-efficient for a small corner shop to buy this technology.

Financial economies of scale

Larger firms are usually rated by the financial markets to be more 'credit worthy' and have access to credit facilities, with favourable rates of borrowing. In contrast, smaller firms often face higher rates of interest on overdrafts and loans.

Purchasing

Companies can buy products in bulk allowing them to get a cheaper product from their suppliers

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reasons why some businesses remain small

Lack of availability of capital (money)

Lack of desire of owner to make more money

In a niche market, too much competition if they get bigger