Chapter 17: Expanding the Business

Reasons for Expansion

A business needs to expand for the following reasons:

- To cater to the owner's needs
- To create economies of scale
- To diversify
- To create synergy
- To acquire new brands
- To protect supplies of raw materials
- To eliminate the competition
- To increase profits

Methods of Expansion

Organic Growth

Organic growth occurs from within the business and does not involve outside firms. It happens through:

Using existing products

- Focusing on promotional activities in the domestic market.
- Looking to export to new markets abroad.
- By licensing a product, a firm sells the right to produce their product to another firm.
- Franchising: a business can expand rapidly by franchising.

Developing new products

- A firm creates a new product, which they can launch in the domestic and/or international market.
- Launching a new product is a high-risk venture.

Inorganic Growth

Inorganic growth occurs when a firm grows by buying other firms or by agreeing to cooperate with other firms. It happens through:

Forming a strategic alliance

- A strategic alliance occurs when two or more firms agree to co-operate in the establishment of a project or a business together.

Mergers and acquisitions

- A merger occurs when the managers and shareholders of two companies agree to voluntarily join together to form a single firm.

Expansion affects the Business

The following areas may be affected by expansion and need to be considered before expanding:

- Organisational structure
- Finance – Capital and Cash flow
- Employees and Human Resources
- Future marketing
- Research and Development
- Production facilities
- Strategic planning
- Profits.

Financing Expansion

There are factors to be considered when selecting sources of finance for expansion. These factors are purpose, cost, control, tax benefits and risk.

1. Equity is the money the owner(s) invests in the business.

2. Debt or loan capital is the money supplied by institutions or people outside the business.

3. Grants are amounts of money given to a business in return for meeting certain criteria.

4. Sources of finance are also classified on the basis of the length of time over which they can be repaid.

5. Long-term sources of finance are usually repaid between 5 to 20 years. Examples of long-term sources of finance include:
   - Retained Earnings
   - Ordinary shares
   - Long term loan

6. Medium term sources of finance are usually repaid between 1 and 5 years. Examples of medium-term sources of finance include:
   - Hire purchase
   - Term loan
   - Leasing

7. Short-term sources of finance are repaid within 1 year. Examples of short-term sources of finance include:
   - Trade credit
   - Factoring
   - Bank Overdraft

8. Short-term implications of expansion include issues such as organisational structure, finance, cash flow, human resources, marketing and timing. Long-term implications of expansion include issues such as strategic planning, research and development, production facilities, management and profits.

9. Irish business expansion has an impact on all the stakeholders in the Irish economy: owners, management, employees, customers, government and community are some of the stakeholders.