



Unit 5: Chapter 18

EXPANSION

Learning Outcomes from this chapter

On completion, you should be able to:

- Identify the reasons for the expansion and growth of a business
- Illustrate the differences between different methods of expansion
- Outline the advantages and disadvantages of using franchising to expand
- Describe the benefits and risks of using merging as a method of expansion
- Evaluate a takeover as a method of expansion
- Explain the advantages of using a business alliance to expand
- Identify the three main sources of finance for expansion
- Compare equity and debt capital as sources of finance for expansion
- Discuss the short-term and long-term implications of expansion for a business
- Analyse the importance of Irish business expansion in domestic and foreign markets

Drive to succeed	Psychological	Self-actualisation, achievement
Diversification	Defensive	Spread the risk
Protect supplier	Defensive	Reverse integration
Economies of scale	Defensive	Reduce cost per unit, increasing output
Acquire new products/technology	Offensive	Buy assets, patents, brands
Eliminate competition	Offensive	Prevent a rival growing or establishing
Asset-stripping	Offensive	Sell off parts of business after takeover
Enter new markets	Offensive	New segments or territories

Reasons a firm might expand

Increase sales

More advertising or sales promotion pushes, by introducing new products or by exporting to new markets/territories

Tayto now sells products in Australia

Franchise

License out an idea/brand to franchisees

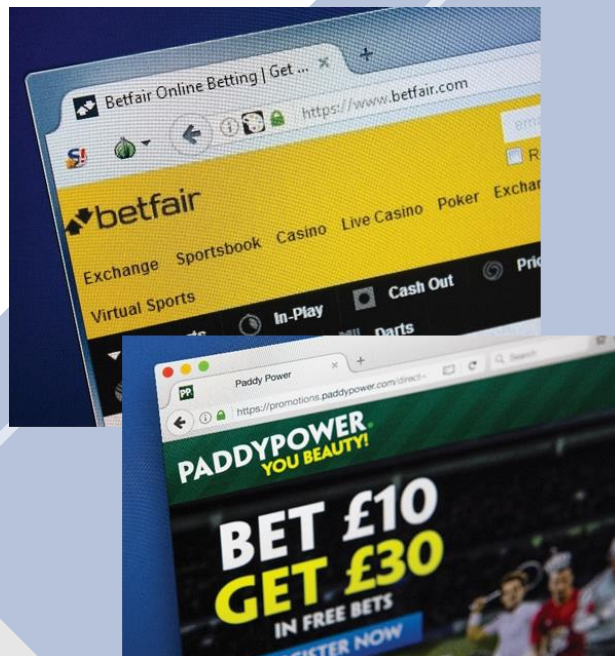
F45 and CrossFit in the fitness sector

Types of expansion:
organic



Merger	Two or more businesses become one legal entity for mutual benefit	Avonmore PLC and Waterford PLC merged to form Glanbia PLC
Takeover	Acquire 51% (or more) control of another company	Google took over YouTube
Business alliance	Two or more businesses join together on a project or product, but remain separate legal entities	Volkswagen and Microsoft created an alliance to supply in-car computer systems

Types of expansion: inorganic



Types of expansion: benefits and risks

Type	Benefits	Risks
Franchising	Low capital investment; fast; franchisor motivated/invested; economies of scale	Loss of control; reputational risk for brand; cost/time of training and supervision
Takeover	Economies of scale; access to new markets and products; eliminate a rival	Capital required; hostile, may cause unrest; high risk of failure
Merger	Diversification; allows rapid expansion; lowers operating costs; new markets	Clash of cultures may exist; industrial relations issues over redundancies and roles
Strategic alliance	Cost-effective; easier to end; provides access to new markets and resources	Unequal input from parties; trade secrets/ advantages may be lost; change needs to be managed well, as alliances are short-term

Capital for expansion: equity or debt capital?

Burden of repayments	Equity: No repayments, no loss of assets, less pressure on cash flow	Debt: Large repayments with interest, loss of assets
Timing of repayments	Equity: Business can choose when to pay dividends to shareholders	Debt: Repayments must be made regularly, no flexibility
Level of security	Equity: No security needed, no risk of losing use of an asset	Debt: Usually needs security/collateral
Level of control	Equity: Loss of control from owners to new shareholders in decision-making	Debt: No voting power given to the lender
Tax effect	Equity: Dividends are not tax-deductible for a business	Debt: Interest on loans for repayments are tax-deductible

Impact of expansion on a business

	Short-term impact	Long-term impact
Organisational structure	May need formal structure as it grows (e.g. functional structure)	May split as it further expands (e.g. geographic or product structure)
Product mix	Increased mix, selling off assets that do not fit the new company	Expansion into new markets (merger/takeover), wider product range
Profitability	Costly – restructuring of business, rebranding, redundancies, takeover	Economies of scale, increased sales
Employment	Redundancies/rationalisation, fear/uncertainty/low morale	More job security, more opportunities/promotions