

SOCIAL ENTREPRENEURSHIP

Methods of Growth



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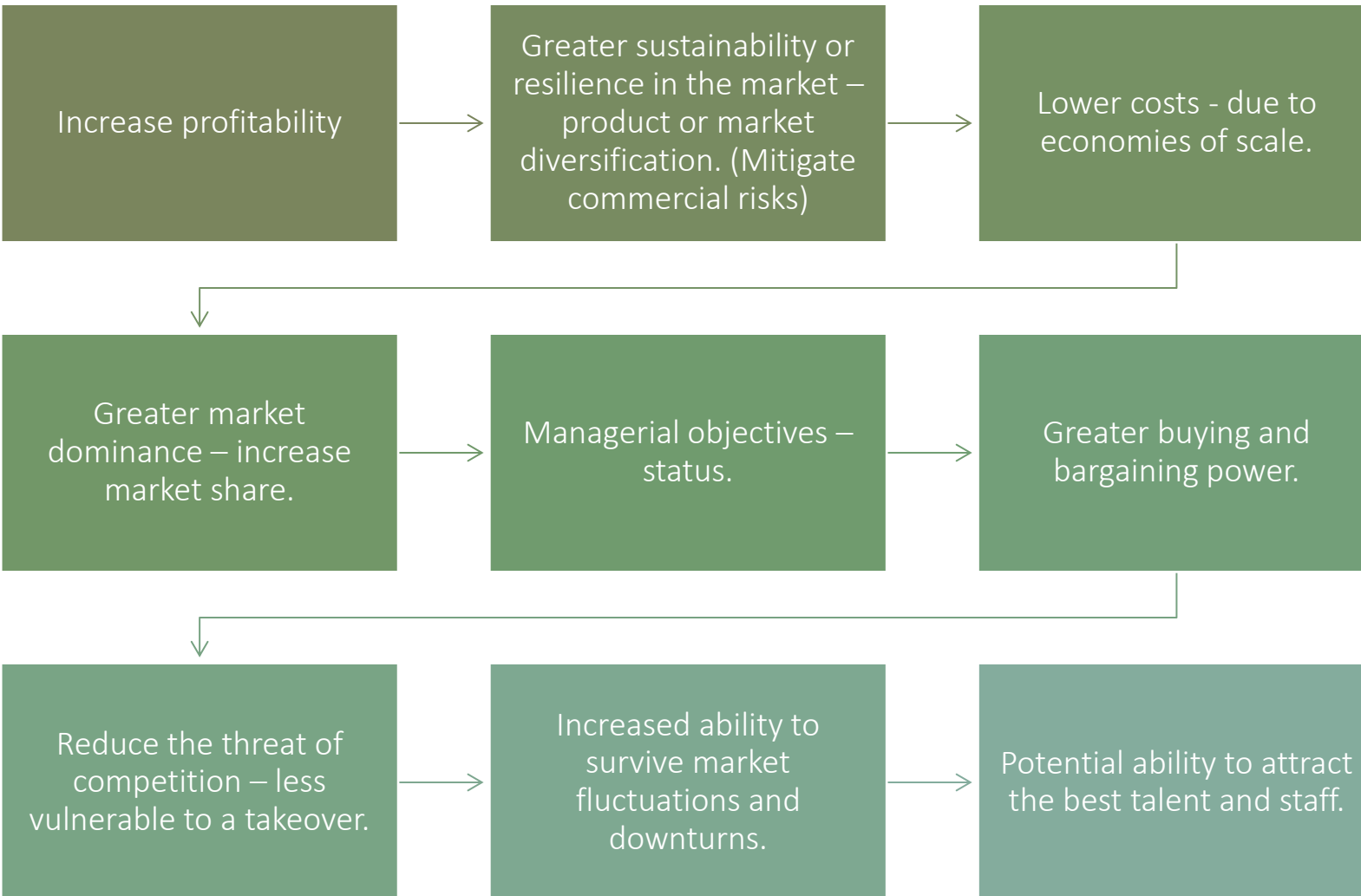


**განათლების, მეცნიერებისა და
ახალგაზრდობის სამინისტრო**



WORLD BANK GROUP

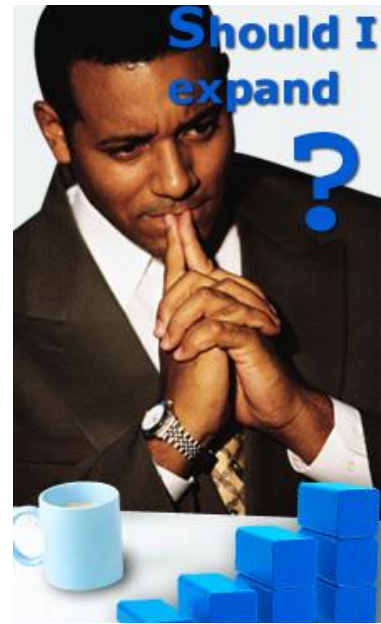




Possible reasons for business growth

Additional reasons

- More customers, can't meet current demand.
- New technology available that will facilitate growth.
Need to find bigger premises to cater for more staff and higher production activity.
- New competition entering market so want to gain increased customer loyalty before new competition establishes itself
- Expansion internationally – using internet for new customers and supplies
- Paid off loans and now looking to borrow more.
- Taking on partners / shareholders so needs additional profits.
- Desire for greater wealth outstrips risk for expansion.
- The understanding that unless a business grows and develops it will eventually become obsolete.







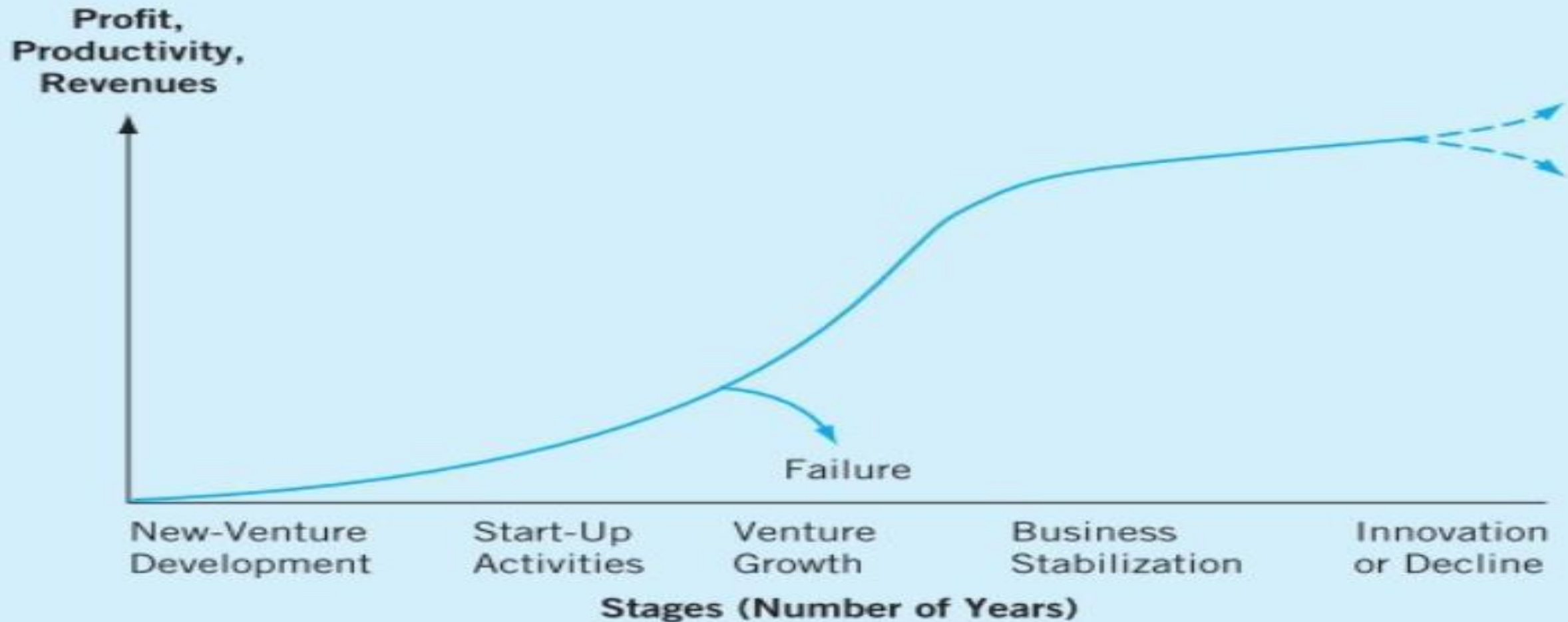
Unless a business invests to grow and develop it will eventually fall behind its competitors to the point it eventually could be facing failure.

**DOES YOUR
BUSINESS
NEED TO
EVOLVE?**



A venture's typical lifecycle

(Kuratko 2017:372)

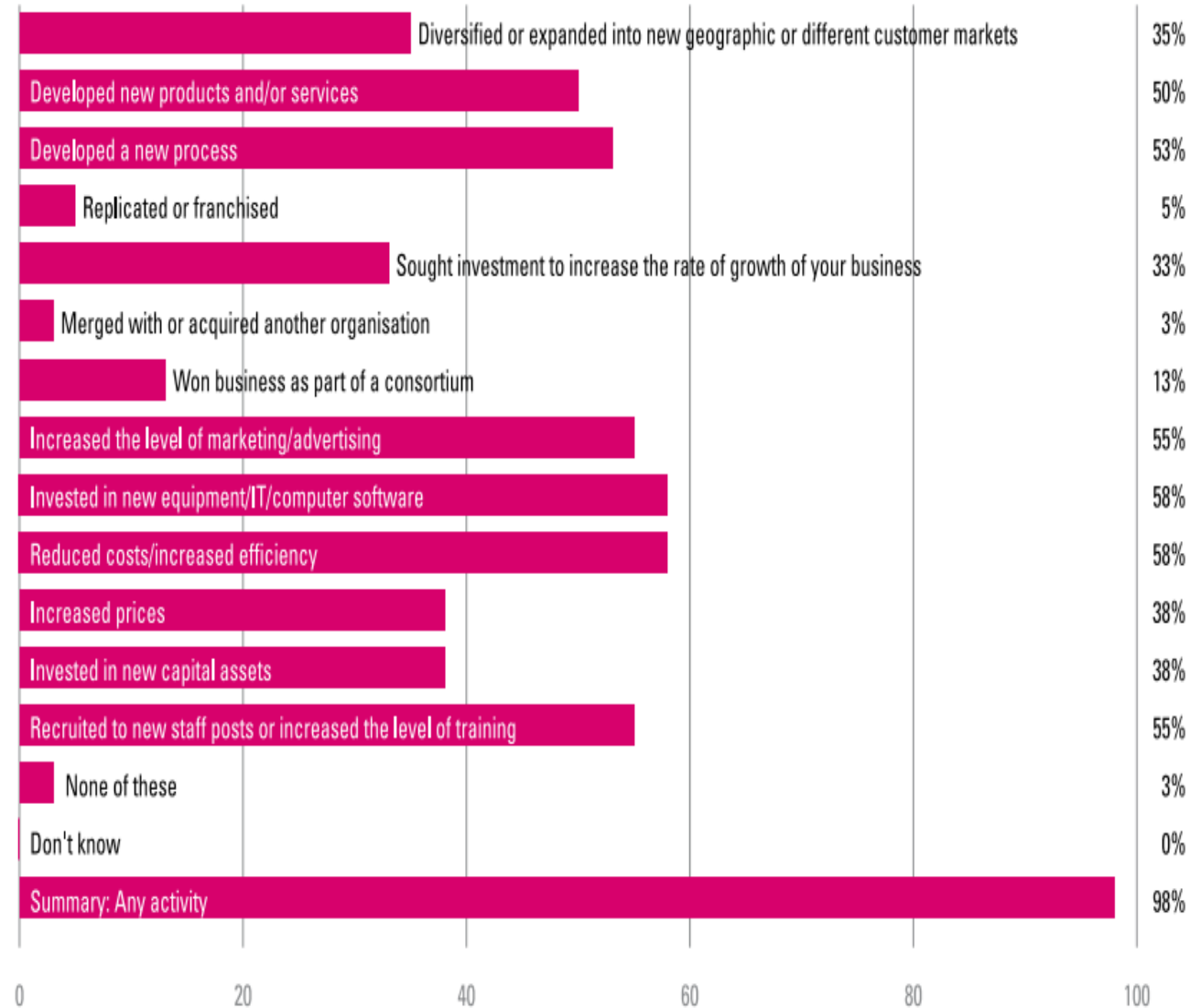


Methods of Growth



(Source: Social Enterprise, UK)

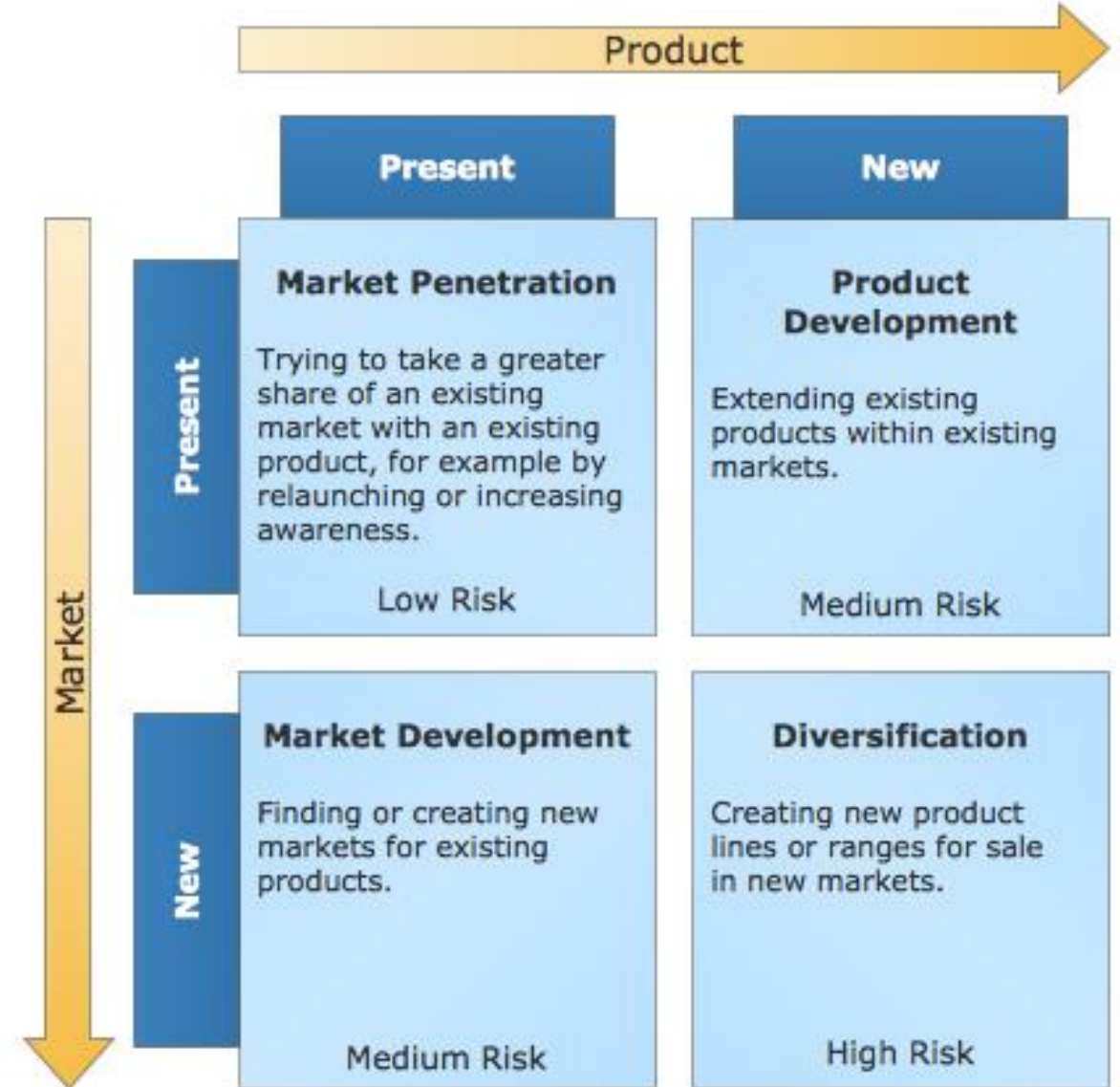
FIGURE 25: PATHWAYS TO GROWTH IN THE PREVIOUS 12 MONTHS





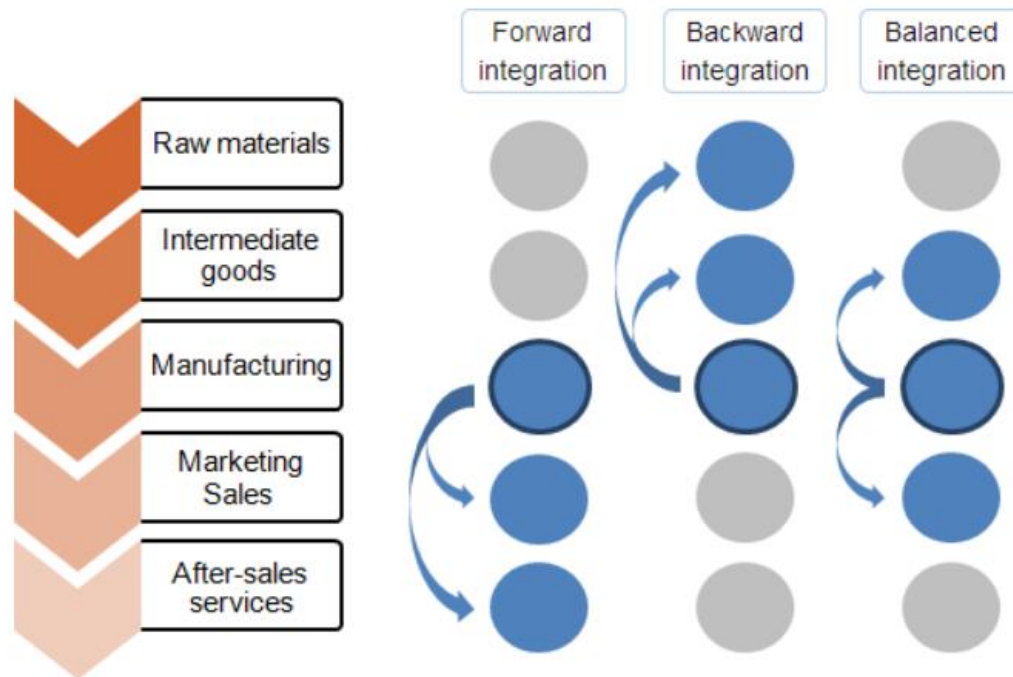
Ansoff matrix to illustrate growth strategies in relation to product and market

(Brassington, F. and Pettitt, S. (2013))



Types of vertical integration

Firms can pursue forward, backward or balanced VI strategies.



Growth in relation to the Value Chain Integration - Vertical

Vertical integration is a strategy used by a company to gain control over its suppliers or distributors in order to increase the firm's power in the marketplace, reduce transaction costs and secure supplies or distribution channels.

[Vertical Integration - Strategic Management Insight](#)

Integration – Horizontal

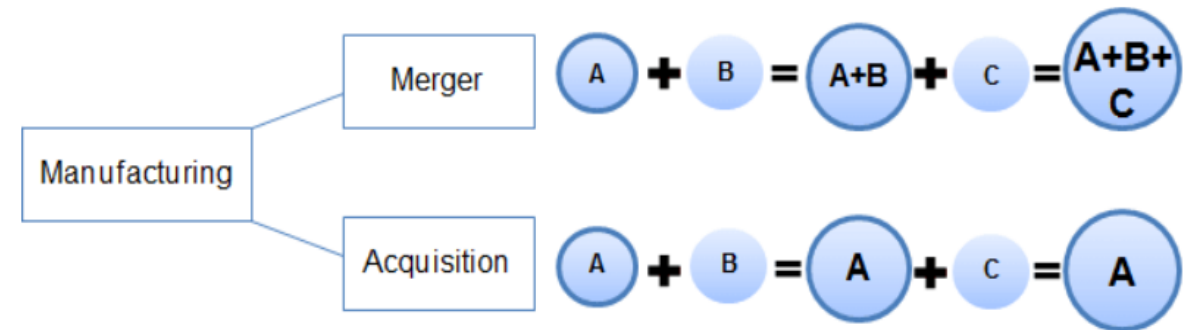
Horizontal integration

The process of acquiring or merging with competitors, leading to industry consolidation.

Horizontal integration

A strategy where a company acquires, mergers or takes over another company in the same industry value chain

The following diagram illustrates HI in manufacturing industry:



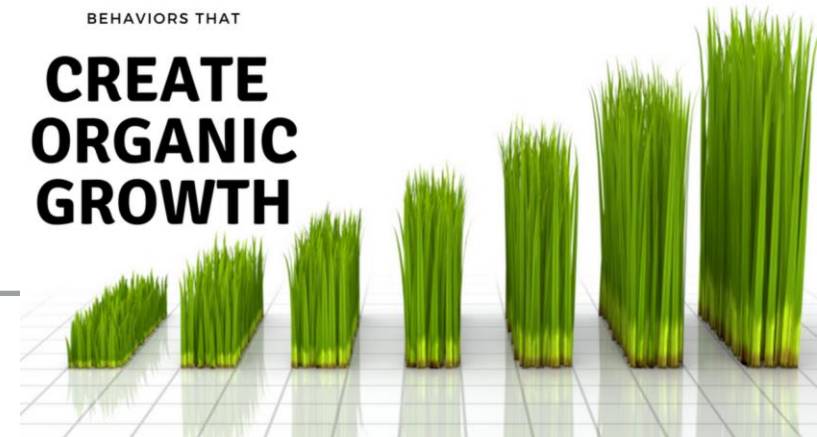
[Horizontal Integration - Strategic Management Insight](#)

Organic v Inorganic Growth

Organic growth is the growth a company achieves by increasing output and enhancing sales internally.

This includes an increase in sales and expansion through the company's own resources, reducing its costs, increasing sales, extending its product line, improved customer service for example. The business is building on its own capabilities and resources.

[Inorganic growth](#) is growth related to activities outside a business's own operations. This includes mergers and takeovers.

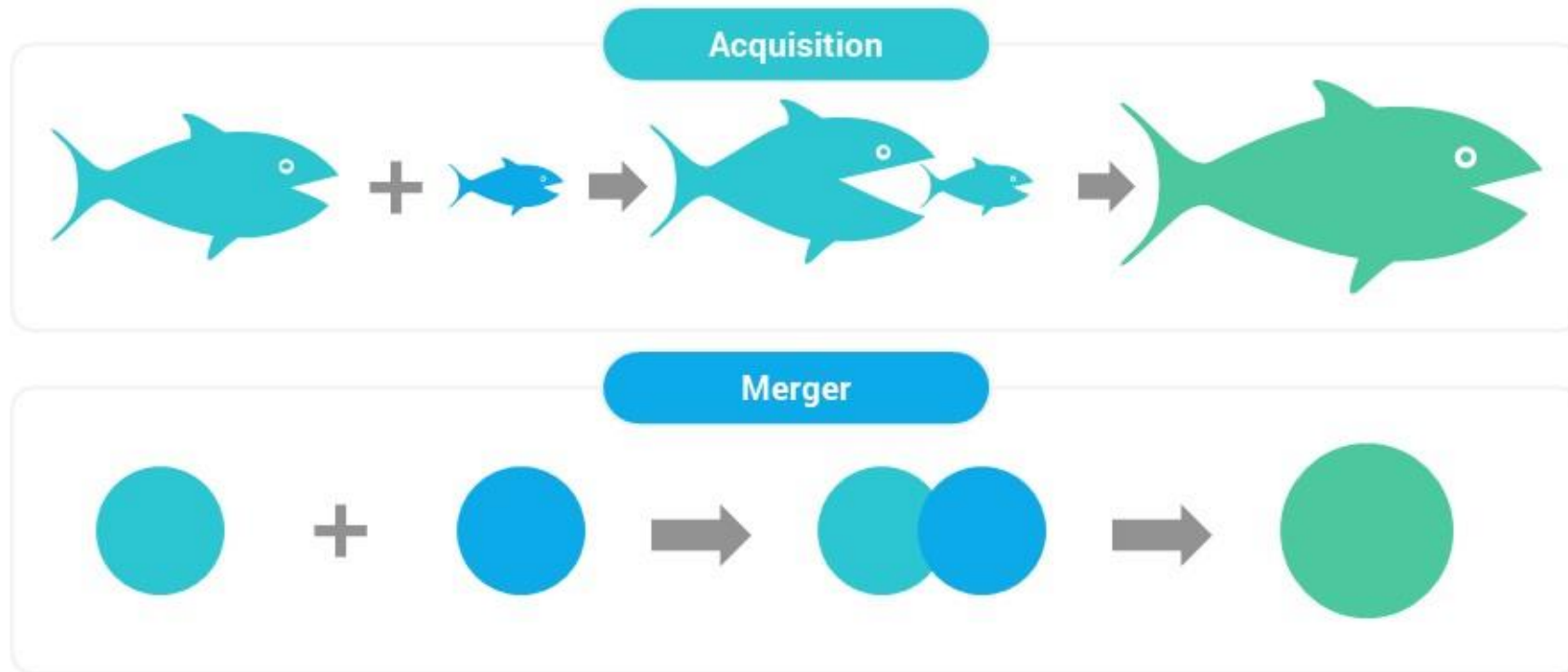




Merger or Takeover (acquisition) ?

What is Merger and Acquisition?

Mergers and Acquisitions





+11,000.00

Key factors to consider during the growth stage

Control

Responsibility

Tolerance of failure

Change

Putting it all together

https://www.youtube.com/watch?v=1npXPUmCz_M

https://www.youtube.com/watch?v=yo77w_Kq_5U



Risks of expansion

- Taking on more partners, shareholders increases risk of disharmony amongst owners. Also risk of losing control of business.
- Over-extending debt – not making the increased profits to pay for the increased debt.
- Too much extra work, leading to stress and adverse work life balance for staff and owners.
- New countries rules and regulations and tax laws complications.
- Loyal customers feel they don't have that 'personalised' service anymore – so lose loyal customers.
- New IT investment doesn't work properly initially or is difficult to operate leading to disruption to business.
- New premises fails to attract new customers to justify the investment – the Return on Investment has been reduced.



Planning for successful growth

- **Plan properly** – make sure that you can afford the expansion and that the additional business will be realised quickly enough to ensure **liquidity** as well as **profitability**.
- **Continually and frequently (monthly) monitor** your actual performance of the investment to make sure it is meeting the planned expansion outcomes.
- **Have enough capital invested** and some spare if needed for unforeseen problems. And have sufficient short-term cash (overdraft facility if needed)
- **Be flexible** – change the plans to meet new set of circumstances – adapt to cultural differences if trading internationally for first time.
- **Delegate where necessary** – don't think you can do everything as you may have done before the expansion.
- **Use IT (including AI) properly** – to help grow the business i.e. identify new customers.

References

Brassington, F. and Pettitt, S. (2013) *Essentials of Marketing*, 3rd edn. Harlow: Pearson (ebook)

Bridge S. and O'Neill K. (2018) *Understanding Enterprise: Entrepreneurs & Small Business*, 5th Ed., London: Palgrave

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Kuratko, D. F. (2017) *Entrepreneurship Theory Process and Practice*, 10th Edn. USA: Cengage Learning (ebook)

Pressuti Jr W D and Mawhinney J R (2013) *Understanding the Dynamics of the Value Chain*. New York: Business Expert Press

Articles on business growth

<https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/scale-or-fail-how-incumbents-can-industrialize-new-business-building>

<https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/building-a-business-within-a-business-how-to-power-continual-organic-growth>

<https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/2020-season-recap-building-and-scaling-new-businesses>

Useful links

<https://www.gov.uk/government/organisations/companies-house>

<http://www.hmrc.gov.uk/>

<http://www.legislation.gov.uk/>