

# ENTREPRENEURSHIP

## CHAPTER 4: ENTERPRISE GROWTH STRATEGIES



## Enterprise Growth Strategies

### Enterprise Growth Strategies -

- ❖ **Small enterprises** are vulnerable to slightest changes in the environment.
- ❖ **Main forms of external expansion are:** (a) Franchising; (b) Merger; (c) Acquisition.
- ❖ **Sustainability** is important managerial function for an entrepreneur.
- ❖ **Franchising** is an arrangement through which the manufacturer or sole distributor of a trade-marked product or service gives exclusive rights of local distribution to independent retailers in return for royalties and conformance to standardized operating procedures.
- ❖ **Creativity and innovation** are vital for the growth and development of the enterprises.
- ❖ **There are four types of franchising product:**
  - Franchise business opportunity.
  - Manufacturing franchise opportunity.
  - Business franchise opportunity ventures.
  - Business format franchise opportunity.
- ❖ **A merger** is a combination of two companies into one larger company.
- ❖ **Enterprise** must maintain pace with the changes for growth.
- ❖ **Types of mergers are**
  - Conglomerate
  - Vertical
  - Market extension
  - Horizontal
  - Product extension.
- ❖ **Modernization** reduces cost of production.
- ❖ **Types of acquisition** are friendly acquisition; Reverse acquisition; Back flip acquisition; Hostile acquisition.
- ❖ **Reasons for mergers and acquisitions:** Synergy-operating synergy and financial synergy, Acquiring new technology, Improved profitability, Acquiring a competency, Entry into

new markets, Access to funds,. Tax benefits.

- ❖ **Reasons for failure of merger and acquisitions** are unrealistic price paid for target, Difficulties in cultural integration, Overstated synergies, Integration difficulties, Inconsistent strategy, Poor business fit, Inadequate due diligence, High leverage, Boardroom split, Regulatory issues.
- ❖ **Diversification** normally relates to addition of similar products/services to the original one.
- ❖ **Value addition:** Businesses add value to goods and services by modifying them in a particular way to create a new product of greater value to customers.
- ❖ **Types of added value:** Quality, Environmental, Cause-related, Cultural.
- ❖ **Primary activities of Value Chain:**
  - Inbound logistics
  - Operations
  - Outbound logistics
  - Marketing and sales
  - Services.
- ❖ **Support activities of Value Chain are:**
  - Procurement
  - Technology development
  - Human resource management
  - Firm infrastructure.
- ❖ **Expansion** of an enterprise can be made possible by increasing volume of production or turnover.
- ❖ **Growth** of an enterprise can be either through (a) internal expansion, or (b) external expansion.
- ❖ **Six requirements for value chain management:**
  - Coordination and Collaboration
  - Technology Investment
  - Organizational Process
  - Leadership
  - Employee/ Human Resources

- Organizational Culture and Attitudes.

## Words That Matter -

- ❖ **Franchising:** Franchising is an arrangement through which the manufacturer or sole distributor of a trade marked product or service gives exclusive rights of local distribution to independent retailers in return for royalties and conformance to standardized operating procedures.
- ❖ **Diversification:** Diversification relates to addition of similar products/services to the original one.
- ❖ **Franchisor:** The owner or person offering the franchise is known as the franchisor.
- ❖ **Franchisee:** The franchisee is the person who purchases the franchise and is given the opportunity to enter a new business with a better chance to success than if he or she were to start a new business from nothing.
- ❖ **Take over:** Take over or Acquisition is enveloping in itself a range of acquisition transactions by a firm.
- ❖ **Merger:** Merger is the combining of two firms into a single large firm.
- ❖ **Creativity:** It means bringing something new into existence.
- ❖ **Innovation:** It refers to performing a task in a new way.
- ❖ **Modernization:** Modernization refers to use of new technology, new processor, new machines in the process of production.
- ❖ **Direct competition:** It refers to the competitions in which various enterprises producing close substitutes try to increase the sale of their product.
- ❖ **Indirect competition:** It is a type of competition in which the enterprises compete not only for price but other references about the product.
- ❖ **Diversification:** It is a process of adding new products or markets to the existing, by an enterprise.
- ❖ **Internal Expansion:** It is the gradual increase in the activities of the concern.
- ❖ **External Expansion:** It is a business combination where two or more firms combine and expand their business activities.
- ❖ **Consolidation:** In a consolidation, a new firm is created after the merger, and both the acquiring firm and the target firm stockholders receive stock in this firm.