Expanding the Business | H1 Notes

Reasons for Expansion

Businesses expand for many different reasons. Here are some examples of why they would expand:

- To eliminate competition.
- To diversify.
- To get more of a market share.
- The entrepreneur needs a challenge.
- The entrepreneur needs more power.
- To avail of economies of scale.

How they Expand

Some businesses expand by producing new products to bring into the market. Others attempt to merge into new markets such as foreign markets by exporting their goods. Others license their products to other people so that their business can grow without them having to hire more staff or relocate. Similarly, businesses often franchise their business model to others so that they can start up the same business in a different area.

Franchising

Franchising is a popular option for business owners as it is a very quick process and is relatively risk free. It requires little investment from them (the franchisor) but they still remain in control of the business without having to do much work. Some business owners would avoid this as there may be a loss of profits or brand damage by the franchisee. The franchisee benefits from this arrangement by not having to advertise a new brand image and achieving sales from an already established business. They also get help from the franchisor. It is often quite expensive for the franchisee to buy the franchise from the franchisor and they must give the franchisor a percentage of profits.

Strategic Alliance

This is when two or more businesses work together for a common project. They pool resources together for a specific period of time but remain separate legal entities. Eg McDonalds and Disney to make Happy Meals. It is often a very cheap way to expand as the costs are divided between the businesses involved. It gives each business access to new markets that they may not be in. Downsides to this are that profits and control is divided and there may be disputes between the companies.

Merger/Takeover

A merger is when two businesses join together to become one legal entity whereas a takeover is when one company takes over another by gaining more than 50% of voting shares. This is usually very expensive to do as shares cost quite a lot and can lead to redundancies if there is a duplication of staff memebers.