

Business Growth

Specification requirement— reasons for growth and problems associated with growth.

Why grow a Business?

There are number of advantages that come from business growth apart from the obvious increased profits and personal wealth of business owners. These advantages include:

- Bigger companies are often believed to be more reliable, and therefore should be able to achieve better brand recognition., which leads to more sales and perhaps the ability to charge higher prices
- The increased size of a business should give greater negotiating power when it comes to purchasing - leading to economies of scale and cost advantages.
- Better lending terms from the bank and the possibility of access to capital from other financial institutions.
- Easier to acquire a good distribution network, perhaps based on large retailers.
- Growth through wider product range allows diversification, therefore cutting risks

All of the above allows a firm to compete more effectively

Growth may result from long term objectives, based on an effective strategy, or alterna-

tively may occur for unexpected reasons. There may be the opportunity to take over a competitor (LloydsTSB, taking over HBOS), a new product launch may be much more successful than expected, or competition may leave the market (HMV have had increased custom since the failure of ZAVVI and Woolworths).

Problems of Growth.

Business managers and owners, as a business steadily grows, are in the main able to cope, they learn and develop new skills, and adapt to the changing business situation. Change if gradual, means there are few major shocks. Unfortunately business growth is unlikely to be a steady process, with regular growth of say 5% a year. Instead business growth often occurs as rapid bursts, followed by a period of steady growth, then followed again by a rapid burst in growth. This makes it much more difficult for owners and managers to adapt and take growth in their stride.

There are then, instead of smooth business change, problems, inefficiencies and contradictory pressures that can occur within a business, as a firm grows. These problems include;

Stakeholders with different objectives.

If the firm bases growth on funds from outside investors such as Venture Capital Funds, the institution objectives can be very different from those of existing management, we may therefore see two groups of owners with different views. One (institutional investors) targeting short term aims, the other, (existing management), trying to focus on long term

goals. This conflict can have direct, and material effects on the business. These effects include:

- Conflict over objectives - diverting management time from day to day business management
- Weakening of strategic objectives - loss of long term plan
- Pressure to maximise returns on existing products - which may be done through sweating assets or squeezing brands.
- Loss of ethical objectives as profit becomes the overriding priority.

Debt Problems.

Increased borrowings occur as firms grow. There is likely to be a need for extra short-term funding to pay for more office-space, extra computers, more stock and so on. This bring with it the need for security and extra repayments costs, increasing risk to firms

HRM Issues.

As more staff are recruited, the abilities of existing owners as managers of people will be severely stretched as the number of staff is increased. The managers will have to learn new skills of delegation, dispute resolution, motivation etc.

Working Capital and Liquidity.

Growing businesses can often experience rapid increases in sales and profit, but show a reduction in cash generated. At it's worst, this reduction in cash flow and lack of working capital can lead to insolvency and business failure

Time Management and Pressure.

Extra stress and less time - There so much more for managers to do. More personnel issues, more bad debts, more operations man-

agement systems to manage - all of this adds up to more pressure, leading to stress and increased chance of bad decisions being made.

Paperwork.

As the business grows, so does the pile of paperwork produced by the extra bureaucracy. Cash may need to be invested in bigger and better computer systems in order to deal with this extra work.

Customer Relationships may Break Down.

What made the business successful may be lost - less customer contact time, less of the personal touch.

Increased Competition

As a firm grows competition may focus on targeting the business, offering competitive products, targeting the niche, or even using strategies designed to remove the competition entirely.

Notes