Ainm: ______________________

Business Expansion Rapid Revision

1. List three examples of organic expansion strategies.

Organic Expansion Strategies
1. Increase Sales
2. New Product Development
3. Exporting

- Franchising

2. Name two benefits and two drawbacks of franchising as an expansion strategy.

- Answer From point of view OF Franchisor

State/ Explain

Advantages	Disadvantages
- Low Capital Investment - Rapid Form of Expansion	- Day - Day Control lost - Damaged reputation If franchisee acts poorly
- Economies OF Scale - Less management than Company owned - has a Franchisee to look after day - day. - Low risk - agreement can be cancelled	- Training Costs fall on Franchisor - Need to regularly monitor - Time Could be used elsewhere

3. Match the correct organic expansion strategy to the definitions below:

1. Synergy	A. This involves two or more independent firms combining their skills & resources in a particular line of activity for mutual benefit. They remain separate legal entities.
2. Diversification	B. This is where one company takes over another by buying 51% of its shares. a result they gain the major control of firm. The seller will want as much as possible for the business & the buyer will want to pay as little as possible. The actual price will be somewhere in between.
3. Grants	C. Where two firms come together by mutual agreement to run their businesses as one. A new legal entity is formed
4. Economies of scale	D. This is a term meaning an unfriendly expansion strategy.
5. Retained Earnings	E. A financial control mechanism- used to help with planning for expansion.
6. Hostile	F. An ability for businesses to do better and achieve more by working together than they would alone.
7. Cash Flow Forecast	G. Are profits which are ploughed back into the business to create growth.
8. Strategic Alliance	H. This involves firms entering new markets, spreading risk, creating new products or buying businesses in an unrelated market in order to reduce dependency on one product or market.
9. Acquisition	I. Enterprise Boards ~~and~~ Ssi provide finance to help businesses grow and develop with capital that they will not have to pay back to get the business developing and growing
10. Merger	J. Cost saving through producing more units which can increase profits.

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
F	H	I	J	G	D	E	A	B	C

4. Evaluate Debt and Equity Capital using the following headings:

	Debt Capital	Equity Capital
Amount	Large Amounts available through loans -Credit Rating Important	Large Amounts available through selling shares
Control	No direct loss of Control - however assets may be used as Collateral	Control can dilute as you are selling a stake in your business - Shareholders will have a say.
Cost	Loan interest must be repaid - regardless of how profitable the business is.	Can be cheap as only pay dividends when profits are made. Shareholders may go elsewhere if no profits made.
Risk	If the business cannot meet loan repayments - Creditors may seek the business be wound up to pay debts	No profit - No dividends. Business less likely to become bankrupt as fewer Creditors.
Collateral	Security often required to secure loan.	No Security required.
Tax	Interest payments are Tax Deductable.	Dividends are not Tax Deductable.

Evaluation: In my opinion, to decide if a business should seek more Capital investment should depend on how highly geared it is. Cash Flow is essential for a business - so if more debt decreases Cash flow - I would choose equity to expand even if it means a loss of Control.

5. Circle the correct answer for the following:

- A business may need to change from a functional to a geographic or product structure in the **short term/long term** as part of its expansion strategies
- In the long run, a business may have a **wider/narrower** product mix as part of expansion
- In the short run, profits should **increase/decrease** as part of expansion
- In the long run, profits should **increase/decrease** as part of expansion
- In the long run, customers can feel **less/more** of a personal experience and relationship with the store as part of expansion
- In the short term, customers will enjoy a **bigger/smaller** range of products in a business with **lower/higher** prices due to economies of scale