# 1.5 growth and evolution

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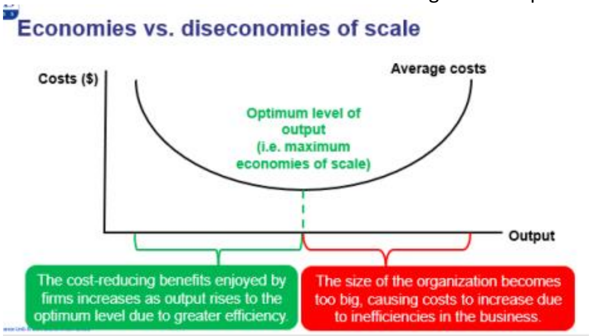
Internal economies and diseconomies of scale

- Economies of scale is when average costs of production decrease as the organization increases the size of its operations.
- Diseconomies of scale is when an organization becomes too large, causing productive inefficiencies that result in an increase in average costs of production.

Its average cost, not the cost of raw material




Diseconomies scale bigger which cost is more due to the business more developed which include the discount provide to customer.. Renewing system

Internal economies of scale

- Economies of scale that occur inside business
- Within the business control

  - Type of internal economies of scale
    - Technical economies - equipment and machinary
    - Financial economies - borrow large sum of money at lower rate of interest
    - Managerial economies - divide the hierarchy
    - Specialisation economies - divide workload
    - Marketing economies - promoting and selling
    - Purchasing economies - buying resource
    - Risk-bearing economies - to deal with risk and stop potential risk (business operations unfavourable trading)
- Internal diseconomies of scale
  - Lack of ccontrol and coordination
  - Power working relationship
  - Lower productive efficiency from outsourcing
  - Bureaucracy
  - complacency

Bureaucracy = excessive processes and formalities that need to be completed in order to get things done. Often associated with very large and traditional organizations
Complacency = when workers are satisfied with their current skills / abilities and have no desire to improve or upskill.

External economies of scale

- Things outside business control
- Type of external economies of scale
  - Technological progress - technology onnovation increase productivity
  - Improved transportation networks - globalized transportation
  - Abundance of skilled labour - certain location may benefit from reputable education and traning facilities
  - Regional specialisation - certain location or countries have establish reputation for a product
- External diseconomies of scale
  - Higher rents
  - Local market conditions for pay and financial rewards
  - Traffic congestion - delay supply
  - Context specific problem

Growth

Internal growth - business growth by using its own capability and resource
External growth - through dealing with outside organizations.


Advantages of internal growth
- Better control and coordination
- Relatively inexpensive
- Maintains corporate culture
- Generally, less risky

Disadvantage of internal growth
- Diseconomies of scale
- Restructuring of the form of ownership may be needed
- May lead to dilution of control and ownership
- Slower method of growth

Advantage and disadvantage of external growth
Advantage:
- Quicker than organic growth
- Synergies
- Reduced competition
- Economies of scale
- Spreading of risks

Disadvantage:
- More expensive than internal growth
- Greater risks
- Regulatory barriers
- Potential diseconomies of scale
- Organisational culture clash

Capital employed = the amount invested in a business from the owners and outside landers

Reason for business to grow

Measuring the size of a business
- The size of a business can be measured in several way
    - Market share
    - Total sale revenue
    - Size of workforce
    - Profit
    - Capital employed

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Generic benefits of being a large business
Economies of scale
Lower price
Brand recognition
Brand reputtion
Value-added services
Greater choice
Customer loyalty

Reason for business to stay small
Generic benefit of being a small business
- Cost contrl
- Loss of control
- Financial risks
- Government aid
- Local monopoly power

- Personalized services
- Flexibility
- Small market size

External growth methods
Mergers and acquisitions (M&S)
Mergers - mergers take place when two films agree to form a new company with its own legal identity
Acquisition - acquisition occur when a company buys a controlling interest in another film with the permission and agreement of its board of directors.

Benefits and drawbacks of M&As
Advantage
- Greater market share
- Economies of scale
- Synergy
- Survival
- Diversification
- Gain entry into new markets

Disadvantage
- Redundancies
- Conflict
- Culture clash
- Loss of control
- Diseconomies of scale
- Regulatory problems

Takeovers
Takeovers occur when a company purchases a controlling stake in another company without the permission and agreement of the company or board of directors.
They are also known as hostile takeovers.

Joint venture (JVs)
- Occur when two or moew business split the costs, risks, control and rewards of a business project.
- In doing so, the parties agree to set up a new legal entity

Strategic alliances (SAs)
- Strategic alliances occur when two or more businesses cooperate in a business venture for mutual benefit.
- The film include share the costs of product development marketing and operations

Advnatage and disadvantage of JVs and Sas
Advantage
- Synergy
- Spreading costs and risks
- Entry to new/foreign markets
- Relatively cheap
- Competitive advantages
- Exploitation of local knowledge
- Relatively high success rate

Disadvantage
- Rely heavily on goodwill and resources of their counterparts
- Enormous expenditure on brand development
- Possible culture clashes

Franchising
- Franchising is a form of business ownership whereby a person or business buys a license to trade using another firm's name, logos, brands and trademarks.
- The agreement is between the:
  - Franchisor: the firm selling the license, and the
  - Franchisee: the entrepreneur buying the license

Benefits of franchising for franchisors and franchisees
Franchisors
- Cheaper and faster than internal growth
- Enter new local and international markets
- Growth without incurring day-to-day running costs
- Income from royalty payments

- Franchisees are more motivated than salaried managers

Franchisees
- Relatively low risk
- Relatively lower start-up costs
- Training and advice on financial management
- Large scale advertising performed by franchisor
- Greater likelihood of success due to local market insights

Drawbacks of franchising for franchisors and franchisees

Franchisors
- Risk damage to brand name if franchisees are unsuccessful
- -Monitoring quality standards or franchisees can be difficult
Slower growth method than M&As

Franchisees
Stifled creativity due to many franchisor rules and requirements
Can be very expensive to buy a franchise with no guarantee of a return on investment
Significant percentage of revenues paid to franchisor