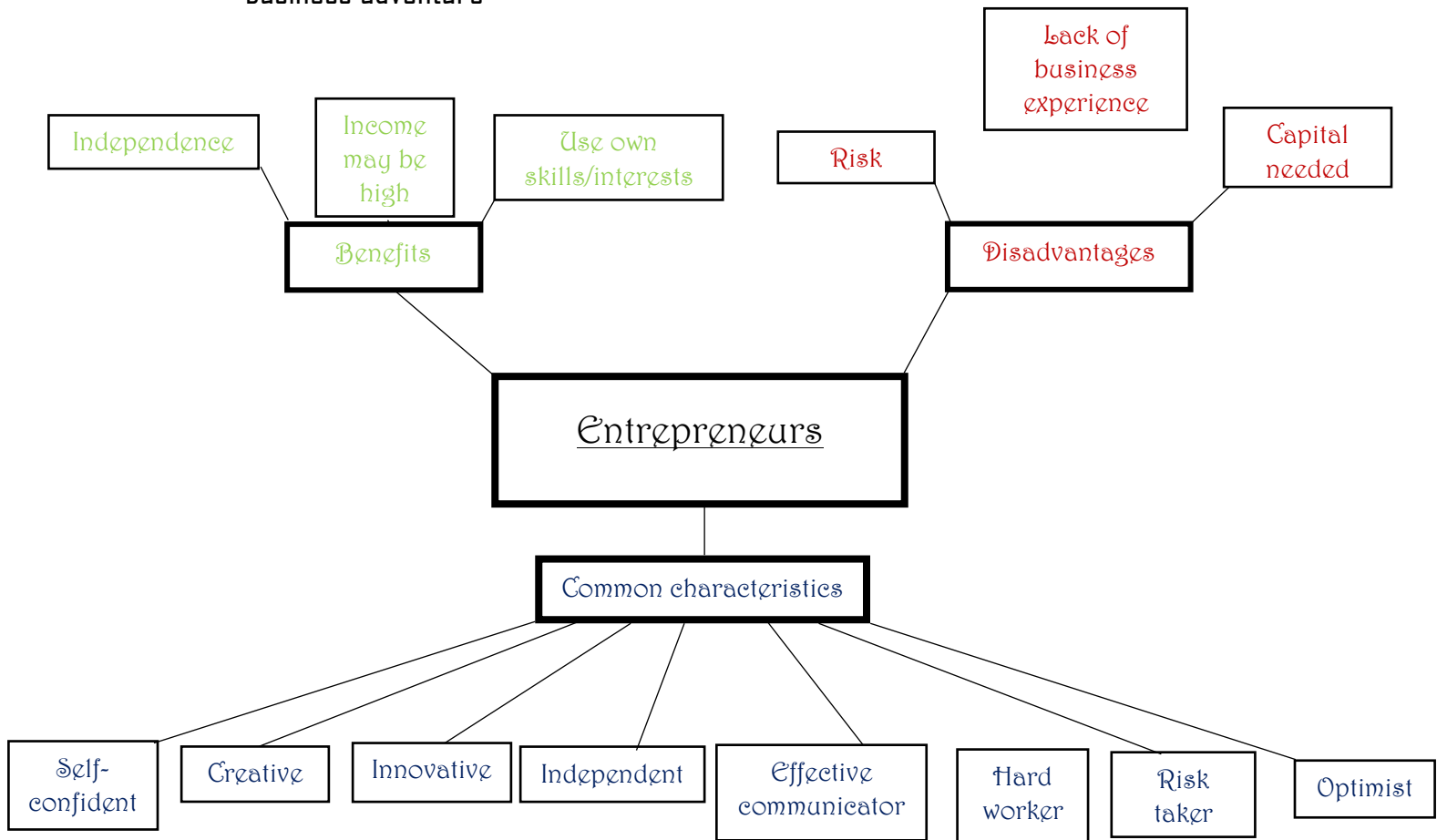


## Chapter 3: Enterprise, Business Growth and Size

### Enterprise and entrepreneurship

- **Entrepreneur** is a person who organizes, operate and takes the risk for a new business adventure



### Why governments support business start-ups

- Reduce unemployment
- Increase competition
- Increase output
- Benefit society
- Can grow further

## Business Plan

A business plan is a document containing the business objectives and important details about operations, finance and owners of the new business

- Name of business
- Type of organization
- Business aim
- Product
- Price
- Market aimed for
- Market research undertaken and the results
- Human resources plan
- Details of business cost
- Location of the business
- Main equipment required
- Forecast profit
- Cash Flow
- Finance

## Comparing the size of business

### Who would find it useful to compare the size of business?

- Investors
- Governments
- Competitions
- Workers
- Banks

### How to measure business size?

- **Number of employees**- limitations: capital intensive and labor intensive firms
- **Value of output**- limitations: only useful when comparing businesses in the same industry
- **Value of sales**- limitations: only useful when the products are similar
- **Value of capital employed**- limitations: this depends on the capital invested

### Why do owners often want their businesses to grow?

- The possibility of higher profits for the owners
- More status and prestige for the owners and manager
- Lower average costs
- Larger share of market

### How can businesses grow?

- Internal growth occurs when a business expands its existing operations
- External growth is when a business takes over or merges with another business. It is often called integration as one firm is integrated into another one
- A merger is when the owners of two businesses agree to join their firms together to make one business
- A takeover or acquisition is when one business buys out the owners of another business which then becomes part of the predator business
- Horizontal integration is when one firm merges with or takes over another one in the same industry at the same stage of production
- Vertical integration is when one firm merges with or takes over another one in the same industry but at a different stage of production. Vertical integration can be forward or backward
- Conglomerate is when one firm merges with or takes over a firm in a completely different industry. This is also known as diversification.

### Why do some business stay small?

- The type of industry the business operates in
- The market size
- The owner's objectives

### Why do some businesses fail?

- Poor management
- Failure to plan for change
- Poor financial management
- Over-expansion
- Risk of new business start up

### Problems and Solutions of business growth

<u>Problems resulting from Growth</u>	<u>Possible way to overcome</u>
Larger business is difficult to control	Decentralization- extent through which authority is passed down the organization
Larger business lead to poor communication	Operate in small units, use technology
Expansion costs	Expand slowly, ensure sufficient long term finance is available
Integrating with another business is difficult	Good communication