

# Internal growth

If a business wishes to grow, it can do so through internal or external growth. This section analyses the characteristics of internal growth.



**Figure 1.** Internal growth means expanding the business with its own resources.

Credit: Maskot, Getty Images

Companies who are interested in growing can choose to do so internally.

Internal growth, also called organic growth, refers to expansion that is carried out by the organisation itself, without working with a partner. For example, a restaurant owner who hires new employees, adds new tables to the restaurant or even opens a second restaurant in another location is engaging in internal growth.

## Benefits of internal growth

There are a number of benefits of internal, rather than external, growth for a business.

- **Internal growth is less expensive than external growth:** When businesses grow internally, it costs less and they often decide to

use internal sources of finance, such as retained profit, for expansion. If they avoid using external sources of finance, such as bank loans, they can avoid interest rate payments or giving up equity in the business. You will learn more about the advantages and disadvantages of internal and external financing in **Subtopic 3.2**.

- **Internal growth is less risky than external growth:** When a business grows with its own resources, no other party is involved. This means that managers have more control over the resources used to grow and the way in which the business chooses to grow.
- **Internal growth maintains more control of the business than external growth:** With internal growth, as there is no need for external sources of finance, the owner of the company can keep control over the decisions of the company.
- **Internal growth can respect the company's values more than external growth:** With internal growth, the culture of the company can be maintained since there is no risk of a third party changing it or imposing different values.

## Limitations of internal growth

There are also a number of limitations with internal growth.

- **Internal growth is slower than external growth:** Growing only with the resources of the company may take a long time and, in the meantime, larger competitors might enter the market.
- **Internal growth can cause cash flow problems:** Growth can be expensive and if businesses do not see an increase in revenues right away, they may have cash flow problems.
- **Internal growth can be limited:** If a business operates in a small market, it may not be able to reach a size that results in acceptable profits. In addition, the growth of a business is limited by its own financial resources.

## Activity

**Learner profile:** Thinkers

**Approaches to learning:** Research skills (information literacy); Thinking skills (critical thinking)

Using the information above, create a summary table for yourself of the benefits and limitations of internal growth. Use keywords rather than full explanations to synthesise the information.

# Strategies for growing internally

In order to grow internally, companies can implement the following strategies:

- **Increasing production and gaining market share:** Businesses can increase the output of their current products if the market demands it. They can also increase their share of the existing market through pricing changes, improved promotion or improved distribution.
- **Developing new products:** Using market research, businesses can develop new products or improve their existing products to satisfy the target market and increase sales revenue.
- **Finding new markets:** Businesses can sell their existing products or services in a new location or to a new group of people. Establishing new markets is one of the most cost-effective internal growth strategies, since it does not involve new product research, development and production.

These strategies are explored more fully in Section 1.5.7 ([/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-ansoff-matrix-id-36871](https://study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-ansoff-matrix-id-36871)) (the Ansoff matrix).

## Case study

In 2019, Coca-Cola introduced a new product to its portfolio: AHA Sparkling Water (<https://www.coca-colacompany.com/news/aha-adds-to-coke-sparkling-water-portfolio>). This product is available in eight flavour pairings with no sweeteners, no

calories and no sodium, but some flavours have caffeine. The new product is aimed at consumers who want to drink a sparkling beverage that is not a cola product. Sparkling water has been a growing market for Coca-Cola, so this is a new twist on that product.

### Questions

1. Describe the internal growth strategy that Coca-Cola is using with its AHA product. [2 marks]
2. Explain **two** benefits for Coca-Cola of growing the business through AHA. [4 marks]