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| ***Business size –small firms and growth*** |

**Topics covered**

* ***Why are small businesses important?***
* ***What does the government do to assist small firms?***
* ***How to expand the firm through internal growth***

Encouraging the development of small business units can have the **following benefits**:

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| Job creation: |

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| New ideas for consumer goods |

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| Competition to larger firms |

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| Specialist goods and services |

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| All businesses were small at first |

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| Potential lower costs |

The above demonstrate the key benefits to a country’s economy – they explain why nearly all governments are keen to **encourage** and **assist** business **start-ups** and existing small businesses.

Government **assistance** for small businesses used in many countries:

1. Reduced rate of \_\_\_\_\_\_\_\_\_\_\_ tax (corporation tax)
2. Loan guarantee scheme
3. Information, advice and support
4. Small workshops in certain in areas

***Particular problems that small businesses experience include:***

* Lack of specialist management expertise:
* Raising short and long term finance
* Marketing risks
* Finding suitable premises

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| Advantages of small businesses | Advantages of large businesses |
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| Disadvantages of small businesses | Disadvantages of large businesses |
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**SURVIVAL** of the Small firm

The principle of economies of scale suggests that smaller firms **should be driven out of the market** as a result of their **higher unit** costs.

Other common **weaknesses** are:

* Reliance on a **single product** for survival
* A relative **lack** of business experience
* **Limited** financial resources to withstand competition or economic downturn and to employ specialists.

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| **There are a number of reasons why small firms still continue to survive:**   * They supply a **local** or **limited market**-   + E.g. **personal services** such as hairdressing and plumbing   + They operate in a particular **segment** of the market, e.g. domestic building extensions and improvements * The provide **convenience** (e.g. the local shop) * They **concentrate** on specialist or luxury items with limited demand, e.g. specialist firms for coin and stamp collectors * They work in areas where **growth** is naturally limited, e.g. the market for personal services * The owners might lack **ambition**, have a desire to **remain** in charge, or wish to avoid **risk** * Vertical ‘disintegration’ takes place, i.e. larger companies **sub-contract** out to **smaller** firms because they find it **unprofitable** to do the work themselves |

***Small firms also have a number of typical strengths that help them survive. They are often quicker to respond to market forces, the communication between management and staff is normally more efficient, and labour relations tend to be good.***

Activity 3.2:

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***Family Firms***

Family firms are still very popular around the world. Different generations may be involved in the business and the business is often passed on to children. Nowadays, there is a trend for children not to take up the family business as other/better opportunities arise. Let’s look at the benefits and drawbacks of family firms:

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| **Benefits of family firms** | **Drawbacks of family firms** |
| * **Opp\_\_\_\_\_\_\_\_\_\_\_\_** for family members to spend more **time** with each other * **Common purpose** and **sharing** among family members * A high level of **tr\_\_\_\_\_\_\_** * Opportunity to **secure** employment for family members * May have more **values** (family values) over **profits** * Ability to leave a **legacy** * **Branding** opportunities: in 2013, people see **‘family business’** as an antidote to ‘large, profit driven conglomerate’ | * Highly **emotionally** charged (emotions can get in the way of rational decisions) * **Emotional** components * **Easier** to fight/argue with each other/conflicts * Living and working together may be **damaging** to the relationship (generational, spousal) * Whole family may **rely** on income from business…what happens if the business goes badly? * Natural **rivalry** between family members (i.e. brothers and sisters) * Other employees’ **perception** of **unfairness** and favouritism at the firm * Can cause **conflict** with in-law and non-blood relatives * Sometimes not run like ‘real firm’ & lack of **outside influence** and new ideas |

There are many examples of successful large family businesses. Toyota and Samsung consider themselves to be ‘family firms’ while so does the world’s largest retailer Wal-Mart.

Definition of a family business:

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| *A family business is a business in which one or more members of one or more families have a* ***significant ownership interest*** *and significant commitments toward the business’ overall well-being.* |

**Business growth**

Do **all** businesses want to grow?

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***Why*** *do business owners and directors seek* ***growth*** *for their company?*

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| *Increased profits* |  |
| *Increased market share* |  |
| *Increased economies of scale* |  |
| *Increased power and status of owners* |  |
| *Reduced risk of being a takeover target* |  |

**Internal growth** –

Business growth can be achieved in a number of ways and these forms of growth can lead to differing effects on stakeholder groups, such as customers, worker and competitors.

We can group these forms of growth into two forms:

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| **Internal growth** | **External growth** |
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*What are the advantages and disadvantages of internal/organic growth? Here is a summary:*

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| Advantages | Disadvantages |
| * Less **risky** than taking over other businesses * Can be financed through **internal** funds (e.g. retained profits) * Builds on a business’ **strengths** (e.g. brands, customers) * Allows the business to grow at a more **sensible rate** | * Growth achieved may be **dependent** on the growth of the overall market * Harder to build market share if business is already a leader * **Slow** growth – shareholders may prefer more rapid growth * **Franchises** (if used) can be hard to manage effectively |

***Internal growth***

AN example would be a retailing business opening more shops in town and cities where it previously had none. **Growth could be slow** – only a few shops opening each year. This is referred to as **“ORGANIC GROWTH”**

Internal growth builds on the business’ own capabilities and resources. For most businesses, this is the **only expansion** method used. **Internal growth** involves approaches such as:

* + Designing and developing **new** product ranges
  + Implementing **marketing** plans to launch existing products directly into new markets (e.g. exporting)
  + Opening new business **locations** – either in the domestic market or overseas
  + Investing in **research** and **development** (R&D) to support new product development
  + Investing in **additional** production capacity or new technology to allow increased output and sales volumes
  + **Training** employees to help the best acquire new skills and address new technology

Whilst these approaches are not easy, they are generally considered to be lower risk than the alternative – acquisitions or joint ventures. However, the major downside of focusing on internal development is thatthe speed of change or growth in the business may be too slow.

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| Integration type | Advantages | Disadvantages | Impact on Stakeholders |
| ***Horizontal*** |  |  |  |
| ***Vertical Forward*** |  |  |  |
| ***Vertical Backward*** |  |  |  |
| ***Conglomerate*** |  |  |  |

**Horizontal integration** example:

**Vertical integration forward** example:

**Vertical integration backward** example:

**Conglomerate integration** example:

**Problems of rapid growth**

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| Potential Problem | *Effect on Business* | *Solutions* |
| Financial |  |  |
| Managerial |  |  |
| Marketing |  |  |
| Loss of Control |  |  |

* May mean retrenchment
* Pace of growth is important, don’t ‘stretch’ the resources of the business
* Publicity

***Worksheet summary quiz and activity:***

1. Identify a **small** business in Xi’an. Explain **two problems** the business experiences because it is **small**

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1. How does China’s **economy** benefit from the growth of small firms? Name **four**.

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True or false (mark an **X**)

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|  | **True** | **False** |
| 1. **Rapid** growth of a business is always **beneficial** and provides good **returns**. |  |  |
| 1. Some firms **prefer** to stay small. ‘Size isn’t everything’. |  |  |
| 1. **Vertical** integration may cause issues with the government due to ‘anti-trust’. |  |  |
| 1. **Diversification** helps minimise risk for a business. “Don’t keep all your eggs in one basket” could be good advice for a business. |  |  |
| 1. Microsoft’s **takeover** of Nokia’s handset division is an example of horizontal integration |  |  |

**Summary of the worksheet in your own words (in English and Chinese):**

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*Vocabulary check:*

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| **English** | **Chinese** |
| **Vertical** |  |
| **Bargaining power** |  |
| **Grants** |  |
| **Incentives** |  |
| **Guarantee** |  |