ENTR 6 Review

6-1 Planning for Business Growth

Examine business growth; Learn when to grow a business; Explore product life cycles.

To grow a business means to make changes that result in greater sales. A business grows, or expands, in two ways: internally and externally.

- Organic growth is growth achieved by expanding a business internally-for example, adding new products or services for sale.
- External growth is achieved by buying other businesses or merging with them. Most small businesses experience organic growth rather than acquiring other companies.

Deciding When To Grow

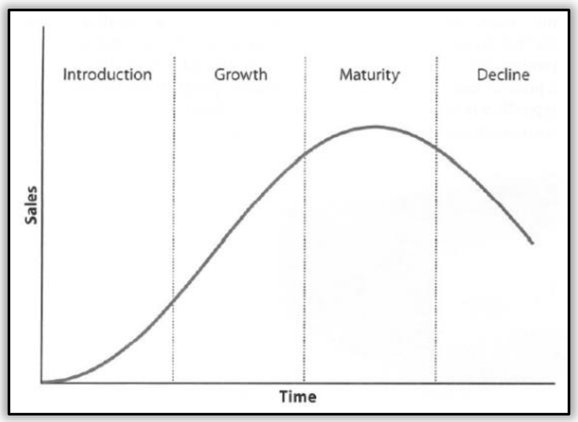
- Condition of the Business
- Economic Climate
- Life Goals of the Business Owner

Control Your Growth

- Attaining measurable objectives and goals
- Hiring managers and supervisors
- Financing expansion
- Obtaining resources for expansion (capital, equipment, inventory, materials, and supplies)

Product Life Cycle

A product life cycle is a series of stages-introduction, growth, maturity, and decline-that a product may pass through while it is on the market. This concept can be applied to a product type or industry (for example, automobiles), to a specific brand (for example, Ford), and to a particular product (like the Ford Explorer).

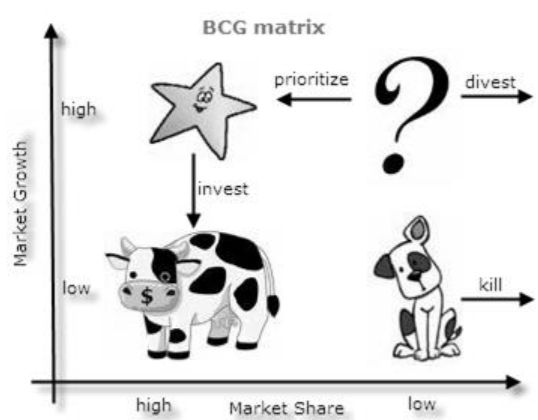


Product development involves the following steps:

- idea development
- idea screening
- strategy development
- financial analysis
- product development and testing
- product marketing.

BCG Matrix

The BCG matrix aims to identify high-growth prospects by categorizing the company's products according to growth rate and market share. By optimizing positive cash flows in high-potential products, a company can capitalize on market-share growth opportunities.



- STARS: high market share and generate the most cash. Monopolies and first-to-market products are frequently termed stars. However, stars also consume large amounts of cash.
- CASH COWS: leaders in the marketplace and generate more cash than they consume; high market share, but low growth prospects.
- DOGS (also known as pets): low market share and a low growth rate. These business units are prime candidates for divestiture.
- QUESTION MARKS (also known as problem children): high growth prospects but a low market share. They are consuming a lot of cash but are bringing little in return. However, since these business units are growing rapidly, they do have the potential to turn into stars.

6-2 Growth Strategies

Investigate business growth strategies; Explain the importance of planning for growth.

Intensive Growth Strategies
An intensive growth strategy is a growth strategy that focuses on cultivating new products or new markets, and sometimes both. This strategy is best described as "doing more of what you are good at doing."

- Market Penetration
- Market Development
- Product Development

Integrative Growth Strategies
An integrative growth strategy is a growth strategy that emphasizes blending businesses together through acquisitions and mergers Integrative growth strategies are typically more expensive than intensive growth strategies and are usually practiced by mature businesses with large cash flows.

- Vertical Integration (a business acquires another business in its own supply chain, but not at the same supply chain level)
- Horizontal Integration (a business acquires another business at the same supply chain level as itself is a horizontal integration strategy)

Diversification Growth Strategies
Every business has a core business, which is the most important focus of the business. A diversification growth strategy is a growth strategy in which a business grows by offering products or services that are different from its core business.

- Synergistic Diversification (a business adds new products or services that are related to its existing products or services)
- Horizontal Diversification (a business adds new products or services that are not related to its existing products or services)

6-3 Challenges of Growth

Examine how personal feelings affect business growth; Study the practical challenges of growing a business; Investigate the chances for business growth.

Personal Feelings About Business Growth
Business growth often requires the owner to give up some personal control over the business. Also, business growth increases risk. Business owners must ultimately make the decision about whether to grow or not, based on their life goals.

Practical Challenges Of Growing A Business
Growing a business involves six practical challenges. Each should be addressed in the revised business plan you will develop.

- Space
- Business Structure
- Materials and Equipment
- Information Technology (IT)
- People and Skills
- Money (equity capital vs. debt capital)

6-4 Global Trends and Opportunities

Discuss the reasons and methods for participating in the global economy; Determine whether international business is right for you.

Exporting

- Direct Exporting (find buyers or distributors in foreign markets and ship your products to them)
- Indirect Exporting (use commissioned agents who act as brokers to find foreign buyers for products)
- Selling Worldwide Through The Web

Importing

- Price and quality are usually factors in their decision to import. Consumers like low prices and demand high quality.

Reasons For Competing Globally
There are many risks associated with competing in the global marketplace. There are also many benefits that international business can provide, including increased profits.

- Increased sales; Reduced costs; Decreased dependence on current markets and suppliers

Analyze The Market

Analyzing whether there is an international market for your product will be very similar to how you analyzed your current target market and target customers. You will need to consider political, economic, social, and cultural issues. Additional taxes and regulations are also things to research and consider.

Write An International Business Plan

An international business plan is an extension of your business plan. It sets forth your goals for international expansion and defines the strategies for achieving those goals.

6-5 Franchising and Licensing

Investigate franchising a business; Examine the advantages and disadvantages of being a franchisor; Explore brand licensing.

Franchising A Business

A franchise is a business arrangement in which an established company sells others the right to use the company's name and operating plan to sell the products or services in other locations. The franchisor is the owner of the established company. A franchisee is an individual who uses the company's name and operation to run the same business in another location. The franchisee pays the franchisor for this privilege. These payments typically include a Franchise Fee, a Franchise Royalty, and a Franchise Advertising Fee.

Advantages for Franchisors

- Increased Revenue
- New Locations without Financial Responsibility
- Franchisee Investment
- No Liability
- Builds Brand Awareness

Disadvantages for Franchisors

- Regulatory and Legal Requirements
- Extensive Preparation
- Substantial Upfront Investment
- Time-Consuming
- Requires Certain Types of Businesses

Licensing A Brand

Brand licensing is granting permission to some person or company to use your brand.

- Advantages: Increased Revenue (upfront fees and royalties from licensees); Brand Enhancement (increase customer awareness and enhance the reputation of the original brand)
- Disadvantages: Misbranding, Over-Branding, Risk to the Brand, Lack of Marketing, and Expense.

6-6 Exit Strategies

When To Leave A Business

One of the goals of owning a business is to build personal wealth. In fact, business ownership provides a unique opportunity for doing so. Regular profits earned during the lifetime of a business can provide a very good income and a comfortable living for the owner. But when an entrepreneur leaves his or her business, a much more valuable asset is involved. It's the accumulated and potential worth of the business itself.

Liquidity is the ease of converting a non-cash asset (such as a business) into cash. A successful business is a very valuable asset, but actually selling it is not always an easy process and must be timed carefully.

How To Value A Business

Determining the value of a business can be difficult. You need to consider such factors as the business type, the length of time the business has been operating, its sales and profits, its cash flow, its liabilities or debts, its tangible assets (such as buildings, furniture, inventory, and equipment), and its reputation and prospects for growth.

- Book Value Method (based on the book value of business, also known as the owner's equity)
- Multiple of Earnings Method (the amount of business earnings over a specific time period is multiplied by a number, typically 3 to 5, to determine a reasonable sales price for the overall business)

Exit Strategies

Planning how to sell a business is just as important as planning how to start a business. The process of exiting a business and gaining the value of the business in cash when you leave is referred to as harvesting the business. It's sometimes called cashing in or cashing out because it involves turning a non-cash asset (the business) into cash.

- Sale of Business
- Management Buyout
- Employee Stock Ownership Plan (ESOP)
- Initial Public Offering (IPO)