

# Starting New Ventures -64-361.202

## Chap 14. Strategies for Firm Growth

Dr. Jack M. Wilson

Distinguished Professor of Higher Education, Emerging Technologies, and Innovation

The screenshot shows the Groupon website interface. At the top, there's a navigation bar with the Groupon logo, a dropdown menu for 'Utrecht', and a search bar. Below the navigation bar, there are tabs for 'Deals in Utrecht', 'Shopping', 'Travel', and 'Alle deals'. The main content area features a large deal for a 3-course menu at Ganessa Indian Restaurant, starting at €24.00. To the right, there are promotional banners for Oral-B, Gillette, and a 2012 award. Below the main deal, there are sections for 'Highlights', 'Voorwaarden', and 'Meer deals'.

**GROUPON** Kies jouw stad: **Utrecht** Ontvang deals voor Utrecht:  [Registreer](#) | [Inloggen](#)

Deals in Utrecht [Shopping](#) [Travel](#) [Alle deals](#) [Registreer nu](#) [Profiteer!](#)

**Restaurant: proef de smaak van India met een 3-gangen keuzemenu voor 2 of 4 personen bij Ganessa Indian Restaurant (vanaf € 24)**

**Koop nu!**

**Bedrag: vanaf € 24,00**

Korting **54%** Bespaar **€ 28,00**

**Doe 'm kado!**

Dit aanbod is nog geldig voor de komende: **1 dag 04:37:42**

**Al 122 keer gekocht!** **De deal gaat door!**

**Highlights**

- Maak kennis met de Indiase keuken
- Klassieke en minder bekende gerechten

**Voorwaarden**

- Je groep is op maandag en woensdag t/m zondag te gebruiken en is geldig vanaf 29 oktober @Microsoft Excel

**Shopping:**

€ 59,00 i.p.v. € 399,00: negendelige messenset van Steigerberger met handig kunstlederen opberg-loodraal en aanzetstaal, incl. verzendkosten

€ 59,00 i.p.v. € 399,00 **Kijken**

**Meer deals**

€ 14,00 i.p.v. € 32,00: manicure- en pedicure-behandelingen bij Beauty Moments Schalkwijk

€ 14,00 i.p.v. € 32,00

# PhoneHalo

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- Keychain Sensor alerts when your cell phone is too far away.
- UCSB Chris Herbert, Christian Smith, Tyler Crain-engineers
- App and hardware \$60
- Wall Street Journal article
- Popular Mechanics Editor's Choice Award
- Crain leaves as did their new business development guy
- **Pivot** to licensing model –Cobra leading the way

# Reasons for Firm Growth

Reason for Growth	Why This Reason May Motivate a Firm to Grow
Capturing Economies of Scale and scope	Economies of scale occur when increasing production lowers the average cost of each unit produced.
Executing a Scalable Business Model	A scalable business model is one in which increased revenues cost less to deliver than current revenues, so profit margins increase as sales go up. This is typically found in companies that have large up-front costs but have products with small per-unit variable costs.
Market Leadership	Many firms work hard to achieve market leadership, to realize economies of scale in production, and be recognized as the brand leader.

# Reasons for Firm Growth

<b>Reason for Growth</b>	<b>Why This Reason May Motivate a Firm to Grow</b>
<b>Influence, Power, and Survivability</b>	<b>Larger businesses usually have more influence and power than smaller firms in regard to setting standards for an industry, getting a “foot in the door” with major customers and suppliers, and garnering prestige.</b>
<b>Need to Accommodate the Growth of Key Customers</b>	<b>Sometimes firms are compelled to grow to accommodate the growth of a key customer.</b>
<b>Ability to Attract and Retain Talented Employees</b>	<b>Growth is a firm’s primary mechanism to generate promotional opportunities for employees.</b>

# Internal and External Growth Strategies

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## Internal Growth Strategies

Rely on effects generated within the firm itself, such as new product development, other product related strategies, and international expansion

### **Organic Growth**

Can sometimes “hit the wall”

## External Growth Strategies

Rely on establishing relationships with third parties, such as mergers, acquisitions, strategic alliances, joint ventures, licensing, and franchising

## Internal Growth Strategies

New product development

Other product-related strategies

International expansion

## External Growth Strategies

Mergers and acquisitions

Licensing

Strategic alliances and joint ventures

Franchising  
(covered in Chapter 15)

Firm Growth

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graph LR; subgraph Internal; I1[New product development]; I2[Other product-related strategies]; I3[International expansion]; end; subgraph External; E1[Mergers and acquisitions]; E2[Licensing]; E3[Strategic alliances and joint ventures]; E4[Franchising (covered in Chapter 15)]; end; IG[Internal Growth Strategies]; EG[External Growth Strategies]; IG --> FG((Firm Growth)); EG --> FG;
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# Internal Growth Strategies

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- New Product Development
- Improving an Existing Product or Service
- Increasing the Market Penetration of an Existing Product or Service
- Extending Product Lines
- Geographic expansion

# Advantages and Disadvantages of Internal Growth Strategies

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## Advantages

- Incremental, even-paced growth
- Provides maximum control
- Preserves organizational culture
- Encourages internal entrepreneurship
- Allows firms to promote from within

## Disadvantages

- Slow form of growth
- Need to develop new resources
- Investment in a failed internal growth strategy can be difficult to recoup
- Adds to industry capacity



# New Product Development

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## Keys to Effective New Product and Service Development

- **Find a need and fill it**
- **Develop products that add value**
- **Get quality right and pricing right**
- **Focus on a specific target market**
- **Conduct ongoing feasibility analysis**

## Common Reasons That New Products Fail

- **Inadequate feasibility analysis**
- **Overestimation of market potential**
- **Bad timing**
- **Inadequate feasibility analysis**
- **Inadequate promotions**
- **Poor service**

# Other Product Related Strategies

Product Strategy	Description
<b>Improving an Existing Product or Service</b>	<b>Often, a business can increase its revenue by improving an existing product or service—enhancing quality, making it larger or smaller, making it more convenient to use, or making it more up-to-date.</b>
<b>Increasing the Market Penetration of an Existing Product or Service</b>	<b>A market penetration strategy seeks to increase the sales of a product or service through greater marketing efforts or through increased production capacity and efficiency.</b>

# Other Product Related Strategies

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Product Strategy	Description
<b>Extending Product Lines</b>	<b>A product line extension strategy involves making additional versions of a product so that it will appeal to different clientele.</b>
<b>Geographic Expansion</b>	<b>Many entrepreneurial businesses grow by simply expanding from their original location to additional geographic sites.</b>

# Advantages and Disadvantages of External Growth Strategies

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Reducing competition</li><li>• Getting access to proprietary products</li><li>• Gaining quick access to new products and markets</li><li>• Access to technical expertise</li><li>• Access to an established brand name</li><li>• Economies of scale</li><li>• Diversification of business risk</li></ul>	<ul style="list-style-type: none"><li>• Incompatibility of top management</li><li>• Clash of corporate cultures</li><li>• Operational problems</li><li>• Increased business complexity</li><li>• Loss of organizational flexibility</li><li>• Antitrust implications</li></ul>

# Mergers and Acquisitions

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- Mergers and Acquisitions
  - Many entrepreneurial firms grow through mergers and acquisitions.
    - An acquisition is the outright purchase of one firm by another.
    - A merger is the pooling of interests to combine two or more firms into one.
- Purpose of Acquisitions
  - Acquiring another business can fulfill several of a company's needs, such as expanding its product line, gaining access to distribution channels, achieving competitive economies of scale, or expanding the company's geographic reach.

# Licensing

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- Licensing
  - Is the granting of permission by one company to another company to use a specific form of its intellectual property under clearly defined conditions.
  - Virtually any intellectual property a company owns that is protected by a patent, trademark, or copyright can be licensed to a third party.
- Licensing Agreement
  - The terms of a license are spelled out by a licensing agreement.

# Licensing

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## Types of Licensing

<b>Type of Licensing</b>	<b>Description</b>
<b>Technology Licensing</b>	<b>Is the licensing of proprietary technology that the licensor typically controls by virtue of a utility patent.</b>
<b>Merchandise and Character Licensing</b>	<b>Is the licensing of a recognized trademark or brand that the licensor typically controls through a registered trademark or copyright.</b>

# Franchising

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- Franchising
  - Franchising is a form of business organization in which a firm that already has a successful product or service (franchisor) licenses its trademark and method of doing business to other business or individual (franchisee) in exchange for a franchise fee and an ongoing royalty payment.



# Advantages and Disadvantages of Franchising As a Method of Business Expansion

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## Advantages

- **Rapid, low-cost market expansion**
- **Income from franchise fees and royalties**
- **Franchisee motivation**
- **Access to ideas and suggestions**
- **Cost savings**
- **Increased buying power**

## Disadvantages

- **Profit sharing**
- **Loss of control**
- **Friction with franchisees**
- **Managing growth**
- **Differences in required business skills**
- **Legal expenses**

# Strategic Alliances

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- Strategic Alliances
  - A strategic alliance is a partnership between two or more firms developed to achieve a specific goal.
  - Alliances tend to be informal and may not involve the creation of a new entity.
  - According to a recent survey, over three-fourths of technology businesses are active in strategic alliances, with the typical participant active in seven alliances.
  - Many types of strategic alliances

# Strategic Alliances

## Types of Strategic Alliances

<b>Type of Alliance</b>	<b>Description</b>
<b>Technology Alliances</b>	<b>Feature cooperation in research and development, engineering, and manufacturing.</b>
<b>Marketing Alliances</b>	<b>Typically match a company with a distribution system with a company that has a product to sell in order to increase sales of a product or service.</b>

# Joint Ventures

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- Joint Ventures
  - A joint venture is an entity created when two or more firms pool a portion of their resources to create a separate, jointly owned organization.
  - A common reason to form a joint venture is to gain access to a foreign market. In these cases, the joint venture typically consists of the firm trying to reach a foreign market and one or more local partners.

# Joint Ventures

## Types of Joint Ventures

Type of Joint Venture	Description
Scale Joint Venture	<b>In a scale joint venture, the partners collaborate at a single point in the value chain to gain economies of scale in production or distribution. This type of joint venture can be a good vehicle for developing new products or services.</b>
Link Joint Venture	<b>In a link joint venture, the position of the parties is not symmetrical, and the objectives of the partners may diverge. For example, many of the joint ventures between food companies provide one partner with access to distribution channels and the partner more products to sell.</b>

# Advantages and Disadvantages of Participating in Strategic Alliances and Joint Ventures

## Advantages

- **Gain access to a particular resource**
- **Economies of scale**
- **Risk and cost sharing**
- **Gain access to a foreign market**
- **Learning**
- **Speed to market**
- **Neutralizing or blocking competitors**

## Disadvantages

- **Loss of proprietary information**
- **Management complexities**
- **Financial and organizational risks**
- **Risk becoming depending on a partner**
- **Partial loss of decision autonomy**
- **Partners' cultures may clash**
- **Loss of organizational flexibility**

# International Expansion

Foreign Market Entry Strategy	Primary Advantage	Primary Disadvantage
<p><b>Exporting.</b> Exporting is the process of producing a product at home and shipping it to a foreign market. Most entrepreneurial firms begin their international involvement as exporters.</p>	Relatively inexpensive way for a firm to become involved in foreign markets.	High transportation costs can make exporting uneconomical, particularly for bulky products.
<p><b>Licensing.</b> A licensing agreement is an arrangement whereby a firm with the proprietary rights to a product grants permission to another firm to manufacture that product for specified royalties or other payments. Proprietary services and processes can also be licensed.</p>	The licensee puts up most of the capital needed to establish the overseas operation.	A firm in effect "teaches" a foreign company how to produce its proprietary product. Eventually, the foreign company will probably break away and start producing a variation of the product on its own.
<p><b>Joint ventures.</b> A joint venture involves the establishment of a firm that is jointly owned by two or more otherwise independent firms. Fuji-Xerox, for example, is a joint venture between an American and a Japanese firm.</p>	Gain access to the foreign partner's knowledge of local customs and market preferences.	A firm loses partial control of its business operations.

# International Expansion

Foreign Market Entry Strategy	Primary Advantage	Primary Disadvantage
<p><b>Franchising.</b> A franchise is an agreement between a franchisor (the parent company that has a proprietary product, service, or business method) and a franchisee (an individual or firm that is willing to pay the franchisor a fee for the right to sell its product, service, and/or business method). U.S. firms can sell franchises in foreign markets.</p>	The franchisee puts up the majority of capital needed to operate in the foreign market.	Quality control.
<p><b>Turnkey projects.</b> In a turnkey project, a contractor from one country builds a facility in another country, trains the personnel that will operate the facility, and <i>turns over the keys</i> to the project when it is completed and ready to operate.</p>	Ability to generate revenue.	It is usually a one-time activity, and the relationships that are established in a foreign market may not be valuable to facilitate future projects.
<p><b>Wholly owned subsidiary.</b> A firm that establishes a wholly owned subsidiary in a foreign country has typically made the decision to manufacture in the foreign country and establish a permanent presence.</p>	Provides a firm total control over its foreign operations.	The cost of setting up and maintaining a manufacturing facility and permanent presence in a foreign country can be high.



# Online questions; Due Tuesday November 26

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- Please answer these questions and return them to me by email.
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1. Name two types of internal growth strategies and give an example of each from some existing company.
  2. Name two types of external growth strategies and give an example of each from some existing company.
  3. Give three **advantages** of internal growth strategies.
  4. Give three **disadvantages** of external growth strategies.
  5. How did PhoneHalo “pivot” and what does that mean?
  6. Name two challenges or risks that GroupOn is facing.

