**Chapter Seven - Managing Growth and transaction**

**INTRODUCTION**

This chapter is discussing about the entrepreneurial process, in general and the activities before the start-up, during ruining the venture and also at the later stage of operations, in particular. The entrepreneurial process can be viewed in the four stages: pre-startup stage, startup stage, early growth stage and latter growth stages.

**7.1 Preparing the launch of the venture**

An entrepreneur must find, evaluate and develop opportunities by overcoming the strong forces that resist the creation of something new.The steps through the process are often unplanned, are outside the entrepreneur’s total control and usually occur haphazardly.

**A) Pre-Startup Stage:** During this initial phase, ideas evolve from a creative process to the point of being consciously perceived as commercial endeavors. Entrepreneurs have already begun to believe that their ideas are feasible and they become fascinated by visions of their enterprise. They will try to answer questions about production, operations, markets, competitors, costs, financing, and potential profits.

**I. *Business concepts Identified /Identify opportunities*:** Entrepreneurs must first conceptualize their business. This conceptualization may occur as a natural extension of the creativity process in which new ideas are shaped into visions of useful products or services. What is the purpose of the venture? Who would buy it? Why would they want it? Where are these customers? The business concept may not be fully developed until most of these questions are answered.

***II. Product-Market Study /Evaluating Opportunity***: Once an entrepreneur has determined that a product or service is feasible, and that he or she might be capable, the next set of activities involves pragmatic research. Research is necessary in at least two areas: product development and marketing.

**III. *Financial Planning/Feasibility Study****:* entrepreneurs have to attract capital through sophisticated loans and knowledgeable investors. Attracting capital requires careful planning and documentation about products, services, markets, and the entrepreneur’s expectations. Financial planning during the pre-startup stage will not necessarily be extensive, but it does have to be based on verifiable information.

**IV. *Pre-start-up Implementation****:* If we define the pre-start-up stage as a period that precedes any attempt to generate sales, the entrepreneur must establish vendor relations with suppliers, establish a business location, hire essential personnel, arrange for initial promotions, and set up administration systems. The entrepreneur, in addition, must final resources, purchase beginning inventory, hire those needed at start up and obtain necessary license, permits, leases, facilities and equipment.

**B) Start-Up Stage**: It is the initial period of business. For companies with products or services to sell, it is the first stage into revenue-generating activity. The start-up stage has no definite time frame and there are no models to describe what a business does during this stage: however, there are two benchmark considerations.  
***I. Meeting operating objectives*** ideally the venture will generate projected sales or do slightly better. If sales are significantly below projections the venture risks of running out of cash and closing.

***II. Positioning the Enterprise***: entrepreneurs often find that reality is quite different from what was envisioned. The business must survive in the short run, and it must be positioned to achieve long-term objectives.

**7.2 Managing Early and Later Growth of the Venture**

**A) Early Growth Stage:**  Once the venture is positioned; successful businesses will experience a stage of early growth. Their ventures may have growth potential, but founders restrain expansion to coincide with personal objectives. If the entrepreneur has a unique product or lucrative patent, the business may be actively courted by larger firms. As companies with complementary strength need combine to form a new company mergers become common.

**B) Later Growth Stage** If the enterprise proves successful in the early growth stage and has momentum; it can find itself in competition with larger companies. Companies reaching this stage often “go public” with stock offerings. Founders lose the personal identity they had with their firms, and if they are not ready to adapt to corporate management, they leave.

**7.3 New Venture Expansion/Growth Strategies and Issues**

The most widely pursued corporate directional strategies are those designed to achieve growth in sales, assets, profits, or some other combination. Companies that do business in expanding industries must grow to survive. Continuing growth means increasing sales and a chance to take advantage of the experience curve and economies of scale to reduce per unit cost of products sold, thereby increasing profits. A corporation can grow internally by expanding its operations both globally and domestically, or it can grow externally through mergers, acquisitions, and strategic alliances. Firms can expand through various strategies.

**1) Concentration strategies:**  If a company’s current product lines have real growth potential, concentration of resources on these product lines make sense as a strategy for growth.

*A)* ***Vertical Growth:*** This can be achieved by taking over a function previously provided by a supplier or by a distributor. This may be done in order to reduce costs, gain control over a scarce resource, guarantee quality of a key input, or obtain access to potential customers.

***Forward integration*** – refers to assuming a function previously provided by a distributor.   
***Backward integration*** – on the other hand refers to assuming a function previously provided by suppliers. Although backward integration is usually more profitable than forward integration, it can reduce a corporation’s strategic flexibility.

***B). Horizontal integration:*** Horizontal Integration refers to a strategy of seeking ownership of or increased control over a firm’s competitors. Mergers and acquisitions, and takeovers among competitors allow for increased economies of scale.

**2) Diversification strategies:** When an industry consolidates and becomes mature, most of the surviving firms have reached the limits of growth using vertical and horizontal growth strategies. The two basic diversification strategies are:  
***Concentric diversification*** : Growth through diversification into a related industry may be a very appropriate when a firm has a strong competitive position but industry attractiveness is low.

***Conglomerate diversification –*** is used when management realizes that the current industry is unattractive and that the firm lacks outstanding abilities or skills that it could easily transfer to related products/ services in other industries. The emphasis in conglomerate diversification is on financial considerations rather than on the product – market synergy common to concentric diversification.

**3) Intensive strategies:** when firm aim to improve current product line through intensive marketing strategy

A. ***Market penetration strategy*** –It includes increasing number of sales persons, increasing advertising expenditures, and offering extensive sales promotion.

**B. *Market development:***Market development involves introducing present products/services in to new geographic area.

**C**. ***Product development***: it is a strategy that seeks to increase sales by improving or modifying present products or services.

**Merger:** A private company merger is when two or more private companies combine to form a single entity under a consolidated management and ownership.

* ***A horizontal merger***: is when two private companies from the same business class or market enter into a merger agreement. In a horizontal merger, the merged private companies benefit from economies of scale and increase total market share by consolidating facilities, combining operations, increasing working capital, reducing competition, or reducing advertisement costs, etc.
* ***Vertical Merger***: occurs when two firms from different stages of the same business class, activity or operation enter into a merger agreement. These types of private companies typically have buyer-seller or supply chain relationships before the merger.
* ***Conglomerate Merger****:* occurs when two private companies that operate in different or unrelated business lines enter into the merger agreement. It creates a diverse portfolio that balances business risk.

**Global strategies**

In today’s world, growth usually has international implications. Profit is directly related with international growth. Some of the most popular options for national (and/or international) expansion (and entry) are:

**I) *Exporting****:* Itreduces risk and help to experiment with specific product produced in the company’s home country to other countries market.

***II)* *Licensing:*** Under a licensing agreement, the licensing firm grants rights to another firm in the host country to produce and/or sell a product. This is an especially useful strategy if the trademark or brand name is well known, but the company does not have sufficient funds to finance its entering the country directly.

***III) Acquisitions:*** an acquisition is the purchase of a company or a part of it so that the acquired company is completely absorbed and no longer exists as a business entity. It is a relatively quick way to move into an international area is through acquisitions – purchasing another company already operating in that area. Locating the right candidate will require a thorough analysis of the company size, location, type of business and its market niche, management team, financial condition, lawsuit history, asset values, cash flow values and good will.

***IV) Joint Venture:*** Joint Venture is the most popular strategy used to enter a new country. This is a business undertaking in which foreign and domestic companies share the costs of building, production or research facilities in foreign countries. It also helps companies’ pool technological knowledge and share the expense and risk of research that may not produce marketable goods. A quick method of obtaining local management, it also reduces the risks of expropriation and harassment by host country officials.

***V) Green-Field Development****:* If a company building its own manufacturing plant and distribution system. This is usually a far more complicated and expensive operation than acquisition; but it allows a company more freedom in designing the plant, choosing suppliers, and hiring a workforce.

***VI) Turnkey Operations:***A turnkey operation is agreement by the seller to supply (in exchange for a fee) a buyer with a facility fully equipped and ready to be operated by the buyer’s personnel, who will be trained by the seller. In international marketing, the term is usually associated with giant projects that are sold to governments or government run companies.