Your notes

GCSE Business: revision notes

Business growth

Contents

1. Organic growth
2. External growth
3. Economies and diseconomies of scale
4. Key terms
5. Quick questions
6. What to do next

Organic growth

- Organic (internal) growth means growing from within: opening new branches, launching new products, entering new markets or selling online.
- It is lower risk and the owners keep control, but it is slow. It is often paid for with retained profit or loans.

External growth

- A **merger** is when two businesses agree to join together to form one business. A **takeover** is when one business buys a controlling share (more than half) of another.
- External growth is fast and can bring market share, skills and brands, but it is expensive, and can lead to culture clashes and job losses.
- **Horizontal integration** joins businesses at the same stage in the same industry, such as two supermarkets. Backward **vertical integration** means buying a supplier; forward **vertical integration** means buying a customer, such as a retailer. A conglomerate joins businesses in unrelated industries.

Economies and diseconomies of scale

- **Economies of scale** are the lower average (unit) costs a business gets as it grows: bulk-buying discounts (purchasing), better technology (technical), cheaper loans (financial) and advertising spread over more sales (marketing).
- **Diseconomies of scale** are the higher **average costs** that come from growing too large, such as poor communication, low motivation and coordination problems.

Key terms

Organic growth	Growing from within the business, such as by opening new branches.

Merger	Two businesses agreeing to join together.
Takeover	One business buying a controlling share of another.
Horizontal integration	Joining a business at the same stage of production in the same industry.
Vertical integration	Joining a business at a different stage of production, such as a supplier.
Economies of scale	Lower average costs as a business grows.
Diseconomies of scale	Higher average costs because a business is too large.
Average cost	Total costs divided by the number of units produced.

Your notes

Quick questions

Cover the answers and test yourself: remembering is what makes it stick.

1. What is organic growth?
2. What is a merger?
3. What is a takeover?
4. What is horizontal integration?
5. What is backward vertical integration?
6. What are economies of scale?
7. Which of these is a purchasing economy of scale?
8. What is a diseconomy of scale?

Answers

1. Growing internally, such as by opening new stores
2. Two businesses agreeing to join together
3. One business buying a controlling share of another
4. Joining a business at the same stage of production in the same industry
5. Buying a supplier
6. Lower average costs as a business grows
7. Bulk-buying discounts
8. Higher average costs because a business is too large

What to do next

Practise 12 questions on this topic

Try 4 exam questions, with mark schemes

Read the lesson, one step at a time

Free revision for GCSE and KS3 at lycolearn.co.uk. Some notes are for one exam board only, and say so in brackets.