# Size of Business

# Indicators of Business Size

1. Amount of profits
2. number of outlets and branches
3. Number of employees
4. Market share
5. Capital employed: capital employed refers to the total amount of finance invested in the business which is calculated as

***Fixed Assets + Current Assets – Current Liabilities = Capital Employed***

# Market Share

- Market Share is the percentage of total market sales that is captured by any one business.
- MS = Firm Sales / Market Sales *100

# How do businesses grow?

***1. Internal Growth***: it is when a business grows naturally on its own by using its retained profits

***2. External Growth***: is when a larger business buys a smaller business like Uber bought careem

# External Growth or Integration

- Integration refers to merger or take over between 2 or more firms. Mobilink and Warid merged some time back.

- ***Merger:*** Is when 2 businesses mutually decide to operate as single entity for indefinite time period.

- ***Take – Over / acquisition***: Is when a larger business buys a smaller business.

# Types of Integration

- There are 4 types of integration

namely 1. Horizontal Integration

2. Backward Vertical Integration

3. Forward Vertical Integration 4.

Conglomerate

# Horizontal Integration

- ***When 2 similar businesses merge with each other. EG Mobilink and Warid, Uber and Careem***

Advantages

- ***Elimination of one competitor***
- With increased business size after the merger the business can capture much ***larger market share.***
- The larger business formed after the merger is expected to benefit from ***economies of scale*** which refers to reduction in average total cost due to increased scale of operation. Due to economies of scale

the business profit margin (profit per unit of good will increase).

# Disadvantages of Horizontal Integration

- ***The size of the business might get too large to be managed effectively***. For instance the larger business size will increase the layers of management which can ***<u>slow down the decision making process.</u>***
- The larger business might face ***diseconomies of scale.***
- Employees in ***larger organizations are expected to be less motivated*** since they feel of themselves as a very small part of large system.
- ***Chances of anti-monopoly investigation.***

***Competition Commission of Pakistan is a regulatory body in Pakistan to make sure that businesses do not engage in any sort of unfair practices.***

# Vertical Integration

- It is when 2 business that are in the same industry but at different stages of production process merge with each other. Example car manufacturer merging with tyres producer – backward vertical integration.
- Another example can be Huawei mobile producer merge with mobile phone retailers that now exclusively sell Huawei products – forward vertical integration.

- ***Backward is when a business merges with the supplier of raw material***
- ***Forward is when a business merge with the retailer of the product.***

# Backward Vertical Integration

Advantages

- Better quality raw material
- More reliable raw material supplies.

# Vertical Integration

- Raw Materials Manufacturer Retailer

# Backward Vertical Integration - Advantages

- Provides ***high quality raw material at more reasonable prices.***
- Now this business can ***restrict the supply of raw material to other competitors.***
- Due to lower costs of production (arising from economies of scale) from the fact the now you have access to cheaper raw material will ***increase business profit margin.***

- Profit = Selling Price - Cost of Production

# Backward Vertical Integration - Disadvantages

- However the challenge that a business might face from such integration is that it would have ***absolutely no experience of managing the other type of business.***
- For instance McDonalds has no knowledge of how to operate a farm etc.
- Due to ***redundancies there can be negative publicity of the business***

- Another major challenge ***for any type of integration is chances of conflicts of interest.***

# Forward Vertical Integration - Advantages

- The most significant benefit of this type of integration ***would be more direct connection with customers and so the business would be more aware about customers' preferences and buying trends etc.***
- Businesses can more quickly alter their production pattern based on customer needs etc.
- The profit margin of retailer will become part of main business.

# Vertical Forward Integration - Disadvantages

- Due to ***redundancies there can be negative publicity of the business***
- Another major challenge ***for any type of integration is chances of conflicts of interest that can adversely affect business efficiency.***
- However the challenge that a business might face from such integration is that it would have ***absolutely no experience of managing the other type of business.***

# Conglomerate

- When 2 unrelated businesses merge with each other. For instance as school with a hospital.
- such type of integration reduces business risk. How?
- If one business is not doing that great then another business can compensate for the loss.
- This type of integration allows for diversification of business risk.

# Conglomerate - Advantages

- Diversification: is when due to unrelated nature of 2 businesses the overall business risk is reduced because if any factor is negatively affecting one business then most probably it will not affect the other business.

# Conglomerate - Disadvantages

- No possible benefit from economies of scale.
- Might result in conflict of interest when 2 businesses will merge with each other due to differences in business culture, leadership styles.