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| | Topic: ENTERPRISE GROWTH STRATEGIES |

A. Fill in the blanks

- a. _____ results from the gradual increase in the activities of the concern. The concern may expand its present production capacity by adding more machines or by replacing old machines with the new machines with higher productive capacity. [internal expansion]
- b. _____ refers to business combination where two or more concerns combine and expand their business activities. [External expansion]
- c. The two main forms of external expansions are _____ and _____. [Franchising and Mergers and Acquisitions]
- d. _____ is "an arrangement whereby the manufacturer or sole distributor of a trademarked product or service gives exclusive rights of local distribution to independent retailers in return for their payment of royalties and conformance to standardized operating procedures". [Franchising]
- e. The person offering the franchise is known as the _____ [franchisor]
- f. The _____ is the person who purchases the franchise and is given the opportunity to enter a new business with a better chance to success than if he or she were to start a new business from scratch [franchisee]
- g. A _____ is the legal document that binds the franchisor and franchisee together. This document explains what the franchisor expects from the franchisee in running the business [franchise agreement]

Choose the correct answer

1. It is that part of the agreement that outlines the type of relationship a franchisee is entering into with the franchisor.

a) Contract Explanation

- b) Operations Manual
- c) Proprietary Statements
- d) Ongoing Site Maintenance

2. It outlines how the franchise name is to be used, as well as the marketing and advertising procedures in place that the franchisee will be required to follow. a) Contract Explanation

- b) Operations Manual
- c) **Proprietary Statements**
- d) Ongoing Site Maintenance

3. It includes the types and timeframes regarding various maintenance items and upgrades that must be made to the franchisee's location.

- a) Contract Explanation
- b) Operations Manual
- c) Proprietary Statements
- d) **Ongoing Site Maintenance**

4. The manufacturer grants a store owner the authority to distribute goods by the manufacturer and allows the owner to use the name and trademark owned by the manufacturer. The store owner must pay a fee or purchase a minimum inventory of stock in return for these rights. Some tire stores are good examples of this type of franchise.

- a) Business format franchise opportunity
- b) Business franchise opportunity ventures
- c) Manufacturing franchise opportunity
- d) **Product franchise business opportunity**

5. This type of franchise is found most often in the food and beverage industry. Most bottlers of soft drinks receive a franchise from a company and must use its ingredients to produce, bottle and distribute the soft drinks.

- a) Business format franchise opportunity
- b) Business franchise opportunity ventures

c) **Manufacturing franchise opportunity**

d) Product franchise business opportunity

6. These ventures typically require that a business owner purchases and distributes the products for one specific company.

a) Business format franchise opportunity

b) **Business franchise opportunity ventures**

c) Manufacturing franchise opportunity

d) Product franchise business opportunity

TRUE /FALSE

A private company takes over a public company is called back flip acquisition – **False**

A very rare case of acquisition in which the purchasing company becomes a subsidiary of the purchased company is known as Reverse acquisition – **False**

Synergy accrues in the form of revenue enhancement and cost savings – **True.**

When a firm with accumulated losses or unabsorbed depreciation merges with a profitable firm and the combined firm can set off such losses against its profits, known as tax shield- **True**

Companies also opt for M&A to acquire a capability that they do not have and which the other firm does. - **True**

1. Hotel Saravana Bhavan is the largest vegetarian restaurant chain in the world, founded in 1981 by Rajagopal, offers south Indian cuisine. They have more than 20 outlets in Chennai, 33 in India and 47 around the world (including USA, Canada, United Kingdom, France, Germany, Singapore, Malaysia, and the Middle East). There are plans to open 5-star Vegetarian-Hotels. They have adopted the policy of appointing a businessman who got exclusive rights of local distribution and provide their restaurant service in conformance to standardized operating procedures. For this purpose, Hotel Saravana Bhavan entered into an agreement with the local business man and in return earn royalty as well as expand their business.

a) Identify the type of expansion adopted by Hotel Saravana Bhavan.

External expansion-Franchising

b) Identify the role of Hotel Saravana Bhavan in above given case study.

Franchisor

c) What are the advantages enjoyed by Hotel Saravana Bhavan?

- Quick expansion
- Cost advantages

2. 'Golden Sweets' was a partnership firm, owned by Swati and Sushma. 'Asam Sweets' was another partnership firm owned by Vipin and Pranav. Swati and Sushma were sharing profits in 1:2 ratio and Vipin and Pranav were sharing profits in 2:3 ratio. Both the firms were situated in a famous market of Guwahati and were doing competitive business. Pranav the partner of 'Asam Sweets' observed that many of their customers were from far off areas and if branches of 'Asam Sweets' are opened in other parts of the city; the firm may earn huge profits. Similar was the situation of 'Golden Sweets'. One day in a function at a common friend's house, the partners of both the firms knew that the internal expansion of their respective firms will be costly. Hence, they decided about the merger of the two firms. For this purpose, they decided to meet again to finalize the conditions of merger. Finally, on 1.1.2016 their respective firms were merged and a new firm 'Asam Golden Sweets' was formed with all the four partners Swati, Sushma, Vipin and Pranav. Their new profit-sharing ratio was 1:2:2:3. During the year ended 31.12.2016 the new firm opened four new branches in different parts of the city and earned a profit of 30% on sales.

(a) Identify the type of merger adopted by the two firms and also give its meaning.

(b) Also give the names and meaning of two other types of mergers.

Answer:

(a) Horizontal merger- a merger occurring between two companies in the same industry

(b) Other type of mergers is:

- a) Conglomerate – A merger between firms which are involved in totally unrelated business activities
- b) Market Extension – A merger taking place between two companies that deal in the same products but in separate markets

- c) Product extension – A merger taking place between two business organization that deal in products that are related to each other and operate in the same market
- d) Vertical merger- A merger taking place between two companies producing different goods and services for one specific finished product.

3.Raman started a gym named as ‘Strong Body’. He installed large number of machines and equipment’s of different types and appointed qualified trainers to help the customers in the use of machines. Initially he kept a low fee per hour so that boys and girls belonging to the poor families may also avail the facilities of the gym. Very soon his gym became popular and he started operating in three shifts. For this is appointed additional trainers. He also installed extra machines so that more customers could be enrolled. In one year, he started earning good profit. He took a nearby building on rent and started a ‘Recreation and Health Club’ for the senior citizens of the locality on very nominal charges. He also encouraged young boys and girls to participate in the cleanliness drive started by Prime Minister. They agreed and started giving one hour daily for cleanliness of the nearby areas before opening of the ‘strong body’ gym and ‘recreation club’.

(a)Identify and explain the type of business expansion that took place under the entrepreneurship of Raman.

(a) Internal Expansion- It results from the gradual increase in the activities of the concern.

4.Kamal Ltd. are manufactures of textiles, having their plant in Surat, a city of Gujarat. Vastra Ltd. are the manufactures of readymade garments and sell their products throughout the country. They also export their products to America and European countries. Vastra Ltd. source their textiles from Kamal Ltd. The management of the two companies decided to merge to have economies of large-scale production.

(a) Identify the type of merger entered into by Kamal Ltd. and Vastra Ltd.

(b) Also, explain a type of merger other than the one identified in (a) above.

Answer

a) Vertical Merger

b) Conglomerate: A merger between firms that are involved in totally unrelated business activities.

Horizontal merger: A merger occurring between companies in the same industry.

Market extension mergers: A market extension merger takes place between two companies that deal in the same products but in separate markets.

Product extension mergers: A product extension merger takes place between two business organizations that deal in products that are related to each other and operate in the same market.

5. Beta Ltd. is a steel manufacturing company having its headquarters at Mumbai. It is the tenth largest steel manufacturing company of the world. Gamma Ltd. are also steel manufacturers with their headquarters in Ranchi. For a long period, the company (Gamma Ltd) had been facing workers unrest and it decided to sell its business to an international bidder. The highest bid for this was made by Beta Ltd. for Rs. 10 lakh crores. The employees of the two entities have different corporate cultures and styles of leadership but the new management took steps to slowly reduce the culture gap and adapt to the new merged working environment. The M&A route is adopted as one can enter the market with greater ease and avoid too much competition and increase sales and profits. It leads to the overall growth of the firm.

(a) Identify the growth strategy adopted by Beta Ltd.

Acquisition.

(b) What are the different types of identified growth strategy?

- Friendly acquisition
- Reverse acquisition
- Back flip acquisition
- Hostile acquisition

(c) Quote the line and identify the reasons for merger and acquisition from the above given details.

Quote-1 “The merger route is adopted as one can enter the market with greater ease and avoid too much competition”-entry into new market.

Quote-2 “Increase sales and profits. It leads to the overall growth of the firm”- Operating synergy